POLIS

ANNUAL REPORT 2014

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POLIS AG key ratios at a glance

	2014	2013
Gross profit	18,4 million EUR	18,2 million EUR
Total assets	334 million EUR	334 million EUR
Equity	165 million EUR	160 million EUR
Earnings before taxes	10,3 million EUR	9,8 million EUR
Property portfolio (own commercial space sqm)	137.500 sqm	144.100 sqm
Property portfolio (managed commercial space sqm)	152.700 sqm	159.300 sqm

Senior officers of POLIS AG, from left:

Dr. Alan Cadmus
Chief Executive Officer

Monika Bender
Head of Property Management

Dr. Michael Piontek
Chief Financial Officer

Volker Hahn
Authorized signatory; Head of Acquisitions and Sales, Letting

Andreas Goldau
Authorized signatory; Head of Accounting

CONTENTS

IN CONVERSATION WITH DR ALAN CADMUS AND DR MICHAEL PIONTEK...

POLIS Immobilien AG

Dr. Alan Cadmus
Chief Executive Officer

Dr. Michael Piontek
Chief Financial Officer

Dr Cadmus, Dr Piontek, how do you rate the net profit for 2014 – did it meet your target?

AC | We are delighted to be able to report on a successful financial year 2014 to our shareholders. We finished the past with consolidated earnings before tax of EUR 10.3 million. That is up 5% on the previous year's figure of EUR 9.8 million. So we achieved our goals from an operating perspective, and thanks to the stable, high occupancy rate in combination with extraordinary repayments of debt capital we were able to establish a sound basis for our continuing positive development. Not only did we achieve the goals we had set ourselves for last year; we actually comfortably exceeded them.

What were the exact reasons for the positive development?

AC | As in the previous years, a high level of take-up further stabilized our occupancy rate, which last year rose from 93% to 95%. That had a beneficial effect on our key operating ratios. In all, we concluded new lease agreements for 6,585 sqm and extended existing leases on 25,079 sqm. That is a very good performance bearing in mind the already high occupancy rate, which meant only a limited amount of space was available for letting. Because of the regular turnover where we provide office space for a large number of renting parties in the same building (multi-tenant concept), we equate an occupancy rate upward of 95% with full occupancy. And remember that the conversion of the property at "Gutleutstrasse 26" in Frankfurt means about 2.5% of the total space of our portfolio cannot currently be let. Once the work is finished, we expect the building to be fully let from the start of 2016. That will improve the occupancy rate even further.
In addition, interest rate hedges mean the lower market values of interest rate hedging instruments that are a consequence of falling interest rates have not noticeably diminished the result; in some cases we are even able to report positive valuation effects.

What were the main economic factors at work in 2014?

MP | Thanks to the high occupancy rate, rental revenues climbed 0.9% to EUR 18.4 million in the past year, despite the disposal of several properties. Property management expenses rose to EUR 1.4 million because this item now incorporates the property management costs component in light of reduced vacancy and letting costs. Net rental income remained stable overall, dipping by 1% to EUR 14.5 million. By virtue of high past investments and the good letting performance, the revaluation of investment properties produced a profit contribution of EUR 2.9 million, which is about 50% up on the prior-year figure. Other positive factors included income from a warranty payment of EUR 0.9 million and a year-on-year decrease in other expenses of around EUR 0.6 million.

We also note with satisfaction that funds from operations, which exclude valuation effects, increased by a substantial 34% to EUR 6.7 million.

The biggest negative change compared with the previous year was in the valuation losses not affecting liquidity from derivative financial instruments, because of lower market interest rates; this item came to approximately EUR 3.7 million, in a reversal from the positive result of EUR 3.1 million in the previous year, when interest rates had risen. In accordance with the International Financial Reporting Standards (IFRS), this result comprises a positive result from the valuation of our financial instruments of EUR 1.0 million, which shows up in the income statement, and a negative result of EUR 4.7 million that is recognized directly within equity, with no impact on profit or loss.

But was there any drag on earnings from business operations?

AC | As already mentioned, the sole tenant moved out of the investment property at "Gutleutstrasse 26" in Frankfurt am Main at the end of 2013 after many years of occupancy. Because the property is currently undergoing conversion, we are missing out on rental revenues for the duration of the construction work and there has been a further negative change in market value of EUR 0.6 million.

You disposed of properties in 2014 – but didn't buy any. Why was that?

AC | Last year we continued to optimize the portfolio and sold our two investment properties in Mainz. Having now pulled out of that minor location, in future we will continue to concentrate on our major locations. The two sold-off properties no longer offered scope for increases in value within our planning framework. In addition, following its sale in 2013 we handed over the investment property at "Immermannstrasse 11" in Düsseldorf to the buyer in the first quarter of 2014. The present environment is making it difficult to buy suitable properties because the prices being asked by sellers are often out of line with what we consider a reasonable price to pay, bearing in mind our expected returns. We look for properties with scope for structural and/or commercial optimization, but we are confident that we will find suitable ones notwithstanding the current environment.
Overall, we currently manage investment properties with a total value of approximately EUR 358 million, including EUR 313 million for our own account. Our "asset management for third parties" business area manages three properties where in each case we hold a share of 15%.

The value of the investment properties has appreciated despite a number of sales. Is that down to your investments?

AC | Thanks to our high investments in the past, including EUR 4.2 million last year, our success at letting modernized space and at extending existing lease agreements in some cases on improved terms, we achieved a positive valuation result for most investment properties and a good overall result of EUR 2.9 million from the revaluation of our investment properties.

Our biggest single investment last year was the modernization of "Gutleutstrasse 26" in Frankfurt. Work is scheduled for completion in the third quarter of 2015 and the aim is to have the building fully let by the start of 2016. As well as the modernization investments, we spent a further EUR 2.4 million on ongoing maintenance in order to preserve our investment properties' high standard of quality.

What can you tell us about the financing structure of POLIS?

MP | In 2014 we saw lower credit margins in tenders by banks and the capital market for the financing of pre-checked properties. In the absence of genuine acquisition targets, we were unfortunately only able to use the attractive interest rates in optimizing existing financial arrangements.
At 30 June 2014 we used liquidity not required for operations to make early repayments and cancel the corresponding interest rate hedges amounting to around EUR 9 million, in order to bring down the annual interest expense permanently. The weighted average interest rate, including the interest rate hedges, is 3.6 %.

At present our credit relationships reveal an interest rate hedging ratio of 88% with a lengthy term of around 4.7 years. At the current level of interest rates, our target is a ratio of between 70% and 90%. Financing for new investments can therefore be secured with a lower interest rate hedging ratio. Interest costs will therefore continue to fall. We have now linked most of the interest rate hedging instruments to loans through hedging relationships. That means future interest rate fluctuations will have less of an impact on earnings than in the past.
POLIS is fundamentally on a sound financial footing with an equity ratio of 49% (LTV of 47%), and has considerable scope for organic growth. Realizing our medium-term target of a debt financing ratio of 60%, which could also be achieved with capital market financing, could unlock a further investment volume of up to EUR 100 million.

Dusseldorf | Berliner Allee 42, 44 and 48
Office Buildings

The healthy financial standing of POLIS has also been confirmed by the corporate rating awarded by FERI EuroRating Services AG. It has now rated POLIS as "A-". This good investment-grade rating is a reflection of both the economic strength of POLIS and the effective structures and procedures in its organizational setup. The rating was confirmed by FERI on 4 December 2014 and supplemented by a positive outlook.

Will you be paying a dividend for 2014?

MP | In 2014 POLIS Immobilien AG generated a net income of EUR 2.7 million – that is the result that serves as our basis for paying dividends according to German accounting standards (HGB – German Commercial Code). The HGB net income differs from the figure in the IFRS consolidated financial statements first and foremost in its different treatment of valuation results and the depreciation of buildings. The positive HGB result last year was attributable in part to a write-up of previously written-down valuations for several investment properties. Because we expect HGB net income to be only marginally positive next year due to increased maintenance expenses driven by our desire to consistently improve the condition of our properties,

along with the quite considerable investment spending, we have allocated a EUR 1.35 million portion of the net income to retained earnings and propose to carry forward the remaining profit, also EUR 1.35 million, to new account.

What are the main issues you will be dealing with over the coming financial year?

AC | We want to build on the successes of recent years and continue to grow organically. Our sound financial situation will enable us to act on suitable opportunities for acquisitions. We expect the economy as a whole, and therefore the office markets in Germany, to continue heading in a positive direction in 2015. We anticipate that the Berlin office market in particular will offer good opportunities for development, but identify potentially suitable investment opportunities in other locations, too.
Our modernization activities will focus on repositioning the "Gutleutstrasse" property, which should be ready for letting by the third quarter of 2015. Alongside that, we would also like to let the few remaining vacant units in the portfolio and take the occupancy rate above 95%.

How are the NAV and share price of POLIS performing?

AC | The net asset value of POLIS, or NAV, rose from EUR 14.67 per share to EUR 15.25 per share last year, an increase of about 4%. We anticipate that a further rise in the operating figures will maintain the trend. On the other hand the share price remained stable in the past financial year and the year-end trading price of EUR 11.03 showed a discount of 28% relative to the NAV. The development of the POLIS share price thus performed not as good as our benchmark index, the DAXSubsector Real Estate (Kurs), which finished up 40% in 2014.

Who are the shareholders?

AC | As far as we are aware there were no changes in our established shareholder structure. You will find the details in our Annual Report. With their long-term, strategic view, the investors support the strategy we are pursuing and have a proven track record of underpinning the stability of the Company and its share price. We welcome their commitment and will adhere to our objective of generating an attractive rate of return for the shareholders through letting, active property management and long-term growth.

What is the defining feature of POLIS? What makes it distinctive for you?

MP | Sustainability. That is something we also want

Dusseldorf | Berliner Allee 48
Office Building

to convey in the layout of our new Annual Report. We are putting across what we have achieved, what we are currently doing and what we aim to achieve. We want to be the benchmark in this respect; that is what all the economic data and key ratios show. We practise comprehensive internal risk management and report on these activities in the Annual Report. The corporate rating also included a review of our risk management systems, which contributed towards the "A-" rating that we have been awarded. All investment properties including their key details are presented in the notes to the consolidated financial statements and on the POLIS website. We are continually investing in new technology and systems that support the monitoring of our properties, to ensure that they are all kept in a very good condition.

AC | POLIS has now been around for 16 years, and over that period it has successfully weathered several business cycles thanks to our conservative business policy and risk structure; in the past few years it has regularly achieved steady growth in its intrinsic value (NAV). We are confident that we will continue to be a successful market operator. We are a prime provider of office space in attractive locations. Our well-qualified, highly committed employees are among our most prized assets. All our staff think and act in an entrepreneurial manner, and view the Company's success as a reflection of their own personal achievements. We would like to take this opportunity to thank our employees as well as our shareholders, tenants, contractors and financial partners for their close collaboration in 2014, and are sure we can build successfully on this partnership in years to come.

Thank you for this interview.

DEAR SHAREHOLDERS,

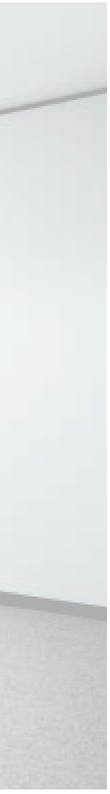
Berlin | Rankestrasse 5-6
Officespace, POLIS

during the year under review, the Supervisory Board fulfilled its responsibilities in accordance with the statutory requirements, the Articles of Association and the rules of internal procedure. We regularly advised and monitored the Board of Management in matters relating to the management of the Company. The Supervisory Board was directly involved in all major decisions affecting the Company.

The Board of Management gave the Supervisory Board regular and comprehensive reports, both orally and in writing, of the situation and development of the Company. In this connection, the Supervisory Board discussed fundamental issues with the Board of Management concerning the Company's business and corporate policies, its corporate strategy, its financial development and financial performance, as well as matters pertaining to transactions that are important for the Company. Wherever transactions were subject to the approval of the Supervisory Board, it reached its decision after thoroughly reviewing and considering the issue.
The Chairman of the Supervisory Board also regularly discussed and coordinated all issues and questions of key importance with the Board of Management outside of meetings.

Supervisory Board meetings and resolutions

The Supervisory Board held four meetings in the period under review, including one in the form of a telephone conference. At the meetings, the Board of Management informed the Supervisory Board in detail of the current business performance, and in particular of the strategy, the plans, the economic situation and development, making reference to papers submitted in writing, and consulted with the Supervisory Board in this regard. All matters that required the approval of the Supervisory Board were dealt with after diligent examination and



consultation in the meetings, where necessary with reference to proposed resolutions prepared in writing prior to the meeting. Where required, the Supervisory Board adopted resolutions by written procedure.
The Supervisory Board also discussed the issue of monitoring the accounting process as well as the effectiveness of the internal control, risk management and internal audit systems, along with compliance. The Supervisory Board in each case received the Quarterly Reports in a timely manner and discussed them at the following Supervisory Board meeting.
At its meeting on 6 March 2014, the annual and consolidated financial statements as well as the management reports were discussed in detail in the presence of the auditor and approved. The separate financial statements of POLIS Immobilien AG were adopted. A resolution on the level of variable compensation for the Board of Management for the previous financial year 2013 had already been passed in advance in writing. We discussed and reached agreement on possible investment projects and their financing, on various measures for realizing further cost savings as well as on use of the capital market for financing. Another topic discussed at that meeting was the approval of the agenda for the Annual General Meeting on 20 June 2014
At the meeting on 19 June 2014 we held in-depth consultations on the current business performance as well as on opportunities for improving the investment strategy in light of the prevailing market environment. Several potential target properties were considered and feedback on the new software for mobile devices for monitoring and swiftly optimizing the condition of the properties was discussed.
In a telephone conference on 1 October 2014, as well as dealing with the current business performance the Supervisory Board primarily considered the report submitted by the Board of Management on the findings of the internal audit, adherence to the construction budget and the results of the tendering process for commissioning property valuations.
The meeting on 21 November 2014 in Frankfurt focused on discussions of the economic data for the third quarter of 2014 and the forecast for financial year 2014, as well as the 2015 budget and the updated medium-term financial plans. The 2015 business plan was passed. In addition several target properties were discussed and the status quo of a possible divestment process in the third-party asset management area was debated. At the same meeting, the declaration of conformity pursuant to Section 161 (1) of AktG was resolved.

Committees

The Investment Committee, consisting of Mr Müller (Chairman), Mr Schmechel and Mr Stein, prepares the decisions of the Supervisory Board on investments requiring its approval. The Investment Committee came together three times, conducting its discussions by telephone; its deliberations focused on the latest investment plans. The projects were debated with the Board of Management and the committee's external experts.
The Personnel Committee, comprising Mr von der Recke (Chairman), Mr Eberhardt and Mr Müller, met on one occasion. It prepared the resolutions of the Supervisory Board concerning Board of Management affairs and discussed mainly the variable compensation for members of the Board of Management, in particular the target agreements.
The committee chairs reported regularly to the plenary meetings of the Supervisory Board.

Corporate governance

The Company's Board of Management and its Supervisory Board identify with the objectives of the German Corporate Governance Code to promote responsible, transparent corporate management and supervision aimed at increasing the long-term value of the Company. On 21 November 2014 the Management Board and Supervisory Board submitted the declaration of conformity pursuant to Section 161 of AktG; it has been made permanently available to the shareholders on the Company's website, along with the declaration on corporate governance with the detailed corporate governance report. The compensation report forms part of the management report section of the Annual Report.
In the year under review, no conflicts of interest concerning the members of the Board of Management and Supervisory Board occurred that would need to be immediately disclosed to the Supervisory Board and communicated to the Annual General Meeting. Furthermore, the Supervisory Board stated that it believes it has a sufficient number of independent members.

Annual and consolidated financial statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements and management report of POLIS Immobilien AG at 31

December 2014 as well as the consolidated financial statements and group management report at 31 December 2014 and has issued an unqualified audit certificate.
The annual financial statements and the management report were prepared in accordance with the principles German Commercial Code (HGB). The consolidated financial statements and the group management report were prepared on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU pursuant to Regulation (EC) No. 1606/2002 and Section 315a of HGB.
The auditor conducted the audit in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW).
The annual financial statements and the consolidated financial statements as well as the audit reports of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were available to all members of the Supervisory Board and were discussed comprehensively in the relevant Supervisory Board meeting on 5 March 2015 in the presence of the auditor. The auditor presented the key findings of its audit and stated that the internal control and risk management systems revealed no essential weaknesses. In particular, the auditor elaborated on the Company's and the Group's net assets, financial position and financial performance, and was available to us for questions. The auditor also provided information on the scope and the main focus areas of the audit. The audit priorities were the valuation of the investment properties, the valuation methods and the valuation of the interest rate hedging instruments.
We examined the annual financial statements of the Company and the consolidated financial statements, as well as the management report and group management report. No objections arose as a result of our review. After examining the auditor's reports, we noted and approved them. By resolution dated 5 March 2015, the Supervisory Board adopted the annual financial statements prepared by the Board of Management. The Supervisory Board also approved the consolidated financial statements. We equally approved the management reports of the Group parent and Group, and in particular the assessment of the further development of the Company.

Beziehungen zu verbundenen Unternehmen

The auditor also audited the report on the relationships with affiliated companies prepared by the Board of Management pursuant to Section 312 of AktG. The auditor issued the following unqualified audit certificate with respect to this report:

"Having audited the report in accordance with our professional duties, we confirm that

- the factual details contained in the report are accurate,
- in the case of the legal transactions detailed in the report, the expenditure of the Company was not unreasonably high."

The Supervisory Board reviewed the report on the relationships with affiliated companies prepared by the Board of Management and reviewed by the auditor as well as the dependency audit report pursuant to Section 314 of AktG. After concluding its review, the Supervisory Board raises no objections with regard to the dependency report and the concluding declaration by the Board of Management it contains, and agrees with the findings of the auditor's review. The Supervisory Board wishes to thank the Board of Management and the employees of POLIS Immobilien AG for their commitment and hard work during the year under review.

On behalf of the Supervisory Board

Carl-Matthias von der Recke
Chairman

Berlin, March 2015

Hanover | Landschaftstrasse 8
Office Building

STOCK MARKET IN 2014 – DEVELOPMENT OF THE MARKET FOR PROPERTY STOCKS

As in the previous year, the stock markets developed positively in 2014. Although the leading German share index, the "DAX", rose by only around 2.6% (compared with 25% in the previous year) to 9,805 points, it passed the 10,000 mark for a short time. On the other hand German property stocks, as reflected by the DAXsubsector Real Estate (Kurs) index, advanced strongly by approximately 40% after having fallen by 4% in the previous year. German property stocks were again dominated by residential property stocks, because investors evidently believe they will provide secure cash flows.

Share price performance

POLIS shares are listed on the Official Market of the Frankfurt Stock Exchange. They satisfy the transparency requirements of the Prime Standard and are included in the DAXsubsector Real Estate (Kurs) index. POLIS shares edged up 0.3% in financial year 2014 to EUR 11.03 and consequently lost ground when measured against the DAXsubsector Real Estate (Kurs) index. To some extent property stocks continue to trade on the stock market at prices that are significantly lower than the value of the real estate assets less debt. However discounts have continued to fall. A whole range of property stocks, and especially the large residential property stocks, are now also trading at more than the net asset value (NAV). The EUR 11.03 year-end price of the POLIS share meant that it showed a discount of approximately 28% relative to the net asset value of EUR 15.25. The still-high discounts relative to the NAV for some German real estate companies, especially among office property stocks, may be an indication of continuing uncertainty about the financial situation of individual, highly leveraged companies, and might suggest a general scepticism in the capital market regarding the long-term soundness of property valuations. POLIS responds to such scepticism by (i) disclosing all information relevant to financing and valuation, (ii) providing a transparent presentation of the valuations that have been prepared by independent experts, and (iii) occasionally selling selected investment properties at their market value under its moderate buy-and-sell strategy. The average daily traded volume of POLIS shares at the Frankfurt Stock Exchange (XETRA) in 2014 was 484 shares, or EUR 5,637.

Shareholder structure

The combination of free float and financially strong strategic investors supports the Company's financial flexibility, management and financial strength. At 31 December 2014, the Board of Management held approximately 0.5% of the Company's capital stock.

SHAREHOLDERS	%
Mann Unternehmensbeteiligungen Holding GmbH & Co. KG*	69,8
Bouwfonds Asset Management Deutschland GmbH	20,2
EZVK Darmstadt	5,1
Board of Management	0,5
Other shareholders	4,4
TOTAL	**100**
Free float as defined by Deutsche Börse	4,9

*Mann Group, Karlsruhe

Investor relations

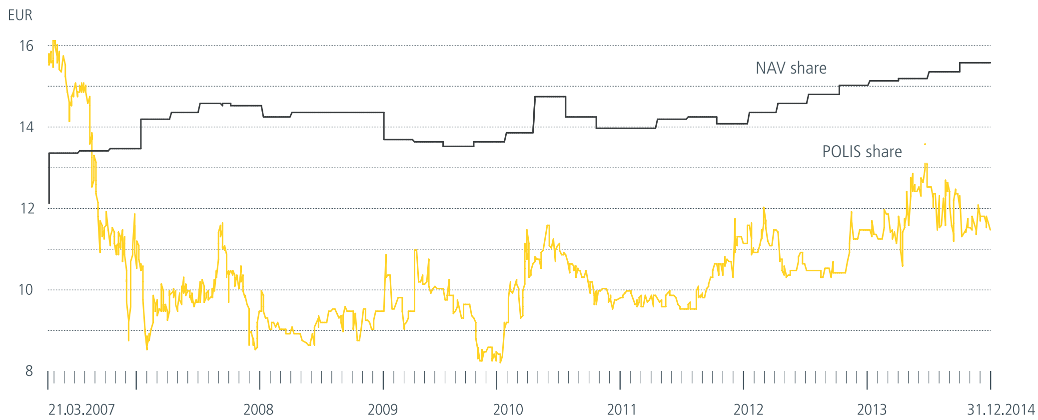
Capital market participants expect a transparent flow of information about a company. By openly and continuously exchanging information with the capital market, POLIS strives to establish a relationship of trust with the financial community and to facilitate a realistic assessment of the Company's value. Our investor relations work is aimed

SHARE DATA FOR 2014	
ISIN	DE0006913304
Security identification code (WKN)	691330
Reuters/Bloomberg symbol	PQLG.DE/PQL GR
Year-end price 2013 (Xetra)	11,03 EUR
Number of shares	11,05 Mio.
Market capitalization	121,84 Mio.
Market segment	Prime Standard
Designated Sponsor	ODDO Seydler Bank AG
Research coverage	ODDO Seydler Bank AG
52-week high	13,21 EUR
52-week low	10,10 EUR
Average daily trading volume	5.637 EUR
Average daily trading volume	484 Stück
Earnings per share	0,79 EUR
NAV per share	15,25 EUR
Free float as defined by Deutsche Börse	4,9 %
Annual General Meeting	19.06.2015

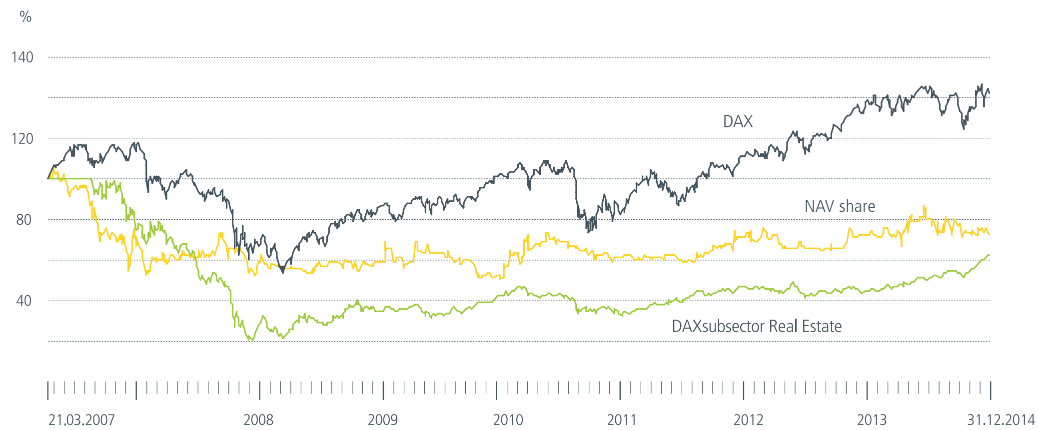
mainly at financial analysts, institutional and private investors, and financial journalists. We communicate not only in the context of the Annual General Meeting, but also in regular direct discussions and by providing comprehensive financial information in the form of annual and interim reports as well as press statements with up-to-date information on specific events that can be accessed via our website at any time. The Board of Management represents the Company at conferences on a regular basis and conducts one-on-one discussions with investors and financial analysts both from Germany and internationally.

On 5 March 2015 the Board of Management of POLIS resolved, with the approval of the Supervisory Board, to apply to the Frankfurt Stock Exchange for the revocation of the listing of the shares of POLIS for trading on the regulated market (delisting) in the near future. It can be assumed that delisting will take effect six months after publication of a positive decision by the Frankfurt Stock Exchange. The reasoning behind this move is that the economic benefit of POLIS Immobilien AG being listed on the stock market no longer justifies the costs involved. Moreover, around 95 percent of POLIS shares have been held by three groups of shareholders for quite some time. Nor are there any plans to perform capital increases via the stock market in the foreseeable future. Following delisting from the regulated market, the Board of Management will examine whether the continued inclusion of the shares of POLIS in trading on the open market at one or more German exchanges is useful.

DEVELOPMENT OF THE POLIS SHARE PRICE SINCE IPO



DEVELOPMENT OF THE SHARE PRICE COMPARED TO INDICES



STEADY FORESIGHT

2014 was a good year for POLIS. The trend of low interest rates and attractive financing driving up purchase prices often quite sharply in attractive locations continued in 2014. Many of the portfolio assets of consequently appreciated substantially in value. On the other hand the investment situation became much more difficult. Properties offering scope for good returns were increasingly hard to track down in view of the rising prices being commanded on the market. In many locations there were either no properties at all for sale, or they were only available at very high prices, thus failing to meet the investment criteria of POLIS and in particular its location requirements. Nevertheless, POLIS was overall very satisfied with the wider environment and made progress in almost every respect: consolidated earnings before tax improved by 6 percent last year to around EUR 10.3 million. Cash flow from operating activities climbed almost 20 percent year on year to EUR 10.8 million, and FFO was up 34 percent at approximately EUR 6.7 million. With the occupancy rate increasing by two percent to more than 95 percent, POLIS effectively achieved full occupancy.

The portfolio of POLIS comprises 23 properties with a total value of EUR 313 million. This compares with loans amounting to EUR 147.9 million, and an ISCR for the portfolio of 1.9 (ratio of cash flow from operating activities to interest expense). This corresponds to an equity ratio of 49 percent. Sound figures achieved through steadfast work.

Sales and lease agreements

POLIS actively manages its portfolio on the basis of a clearly defined strategy, many years of experience and a sound financial footing. Its profitability rests on a portfolio of quality properties that provide steady cash flows. The high degree of investment security offered by these core properties is based on their good central locations in the major German business centres, high technical standards and a strong diversification in the composition of tenants. Two properties in Mainz in the portfolio of POLIS were sold in 2014 to enable the Company to concentrate on larger locations offering more potential for development. Despite the sale of these two buildings, the investment volume remained constant because the increased market values and investments carried out produced a healthy rise in the value of the remaining portfolio properties.

In the current market environment POLIS is reaping the rewards of its long-term investment strategy of buying properties a couple of hundred metres outside prime locations, rather than in the prime locations themselves. In many of the cities where POLIS has invested, very good locations have spread and thus lifted the value of properties in their immediate vicinity. These are the locations that profit first from increases in value and usually achieve even higher growth than the prime locations themselves. Values have also appreciated by raising rental income and using space more effectively. A number of new lease agreements were concluded in 2014, while at the same time many of those expiring were extended for lengthy terms.

Well-situated properties and satisfied tenants: two important elements in the POLIS success story.


Palaisplatz
Königstraße

Embracing sustainability

POLIS was awarded a "Silver" certificate at the Munich EXPO REAL by the German Sustainable Building Council (DGNB). This award was in recognition of the Company's modernization of a building complex in Stuttgart's Hospital quarter. The DGNB certificates celebrate exemplary construction projects. But there is more to sustainability for POLIS than climate-friendly, energy-neutral refurbishments or renovation projects.

Embracing sustainability also means investing responsibly and with an eye to value, consistently preserving the portfolio and adopting long-term strategies. For POLIS, embracing sustainability also means retaining staff and developing them. One route is take a traineeship recognized by the Berlin Chamber of Industry and Commerce (IHK) leading to a professional qualification as a real estate management assistant. A training programme based on the IHK scheme is offered in an attractive working environment. The other route offered by POLIS is a dual study course in Business Administration, specializing in real estate, at the Berlin School of Economics and Law. School-leavers with a higher certificate can follow a training programme based on the curriculum of the Berlin School of Economics and Law to graduate as a Bachelor of Arts (BA), and in parallel build up a deeper knowledge of the working environment. Various health programmes for the employees also enhance the work environment and help to keep the team well motivated and in top form.

Thanks to the management expertise acquired over many years, POLIS is in a position to carry out modernization projects successfully. Embracing sustainability in every area – a further building block of success.

Productive partnerships

POLIS works in partnership almost exclusively with small and medium enterprises (SMEs) in each region. Instead of relying on major corporations it prefers the flexibility offered by SMEs, which can quickly produce solutions tailored to customer requirements. A wide range of construction firms, janitorial services, IT service providers and others find a strong partner in POLIS, and they in turn operate in partnership with other local businesses rooted in the local community.

Various banks of various scales know POLIS as a reliable partner and seek to provide its financing. The POLIS management applies a rigorous selection process in an effort to secure the best financing for each property. A rewarding venture for both parties: good financing terms mean good returns for the Company, while the banks have the reassurance of a safe investment.

Since 2011, POLIS has also been offering its expertise for investment properties in which it holds an interest through the new "third-party asset management" business area. The partnership thus serves as a gateway to adding to investment volumes. The return on the capital employed is moreover significantly boosted by the asset management fees earned.

In sum, the focused strategy and sound work are also reflected in the ratings. Furthermore, the healthy financial standing has been confirmed by the corporate rating awarded by FERI EuroRating Services AG. A rating of "A-" was issued and supplemented by a positive outlook in December 2014. This good investment-grade rating is a reflection of both the economic strength of POLIS and the effective structures and procedures in its organizational setup. Strong partners and effective joint activities cap the success of POLIS.

AT A GLANCE

	2014	+ %	2013	2012
Funds From Operations	6.713	**34 %**	5.002	2.567
Cashflow	10.837	**20 %**	9.038	6.786
Occupancy rate	95 %	**2 %**	93 %	87 %
Net Asset Value	168.573	**4 %**	162.165	151.106

RENTAL INCOME 18,4 MIO. €

CASH FLOW FROM OPERATING ACTIVITIES 10,8 MIO. €

NAV 168,6 MIO. €

23 PROPERTIES WITH A TOTAL VALUE OF 313 MIO. €

CONSOLIDATED EARNINGS BEFORE TAX (EBT) 10,3 MIO. €

FFO 6,7 MIO. €

LTV 47%

OUTLOOK: POSITIVE

The outlook for POLIS for 2015 and 2016 is fundamentally promising. The positive development in the German economy and in the office markets in German cities, especially Berlin, is expected to continue. As a prime provider of office space in good locations, POLIS stands to gain as a result. On the other hand the market from a buyer's perspective will remain difficult in 2015. Long-term interest rates could move back up over the coming years – the ECB has only little scope to prevent this – but when any such rises might happen and how sharp they would be are not yet foreseeable.

In the short term, however, interest rates will remain low. This low level of interest rates is compounded by pressure from investors – which is unlikely to abate in the near future – to close investment deals. This presents a very good starting position for the POLIS portfolio. Thanks to the good locations of the POLIS properties, further increases in rents will be possible and the properties of POLIS will appreciate in value.

Increasing rental income

Because the properties of POLIS are already very reliably let, there is only little scope for increasing rental income through new lease agreements. Nevertheless, there are two other possible areas of growth for rental income. There is high potential in extensions; in other words, at the end of the rental period the current rent as specified in the lease agreement is adjusted in line with the potential rent – the rental rate that could be achieved on the market for the location in question. The portfolio of POLIS comprises almost exclusively multi-tenant properties, let for typically relatively short periods of 3.9 years on average. At present, these shorter rental periods are a clear advantage. If all space could be re-let at market rates over such a period, it would be possible to achieve a far greater return. However some of these old agreements entail options that guarantee the tenant a predefined rental rate if the lease agreement is extended in a timely manner. As in the previous year, there is also further potential for increasing rental income from general rent adjustments in line with a location's upgrading, which in turn increases the potential rent. There will undoubtedly be such adjustments thanks to the improved valuation of the locations in the POLIS portfolio.

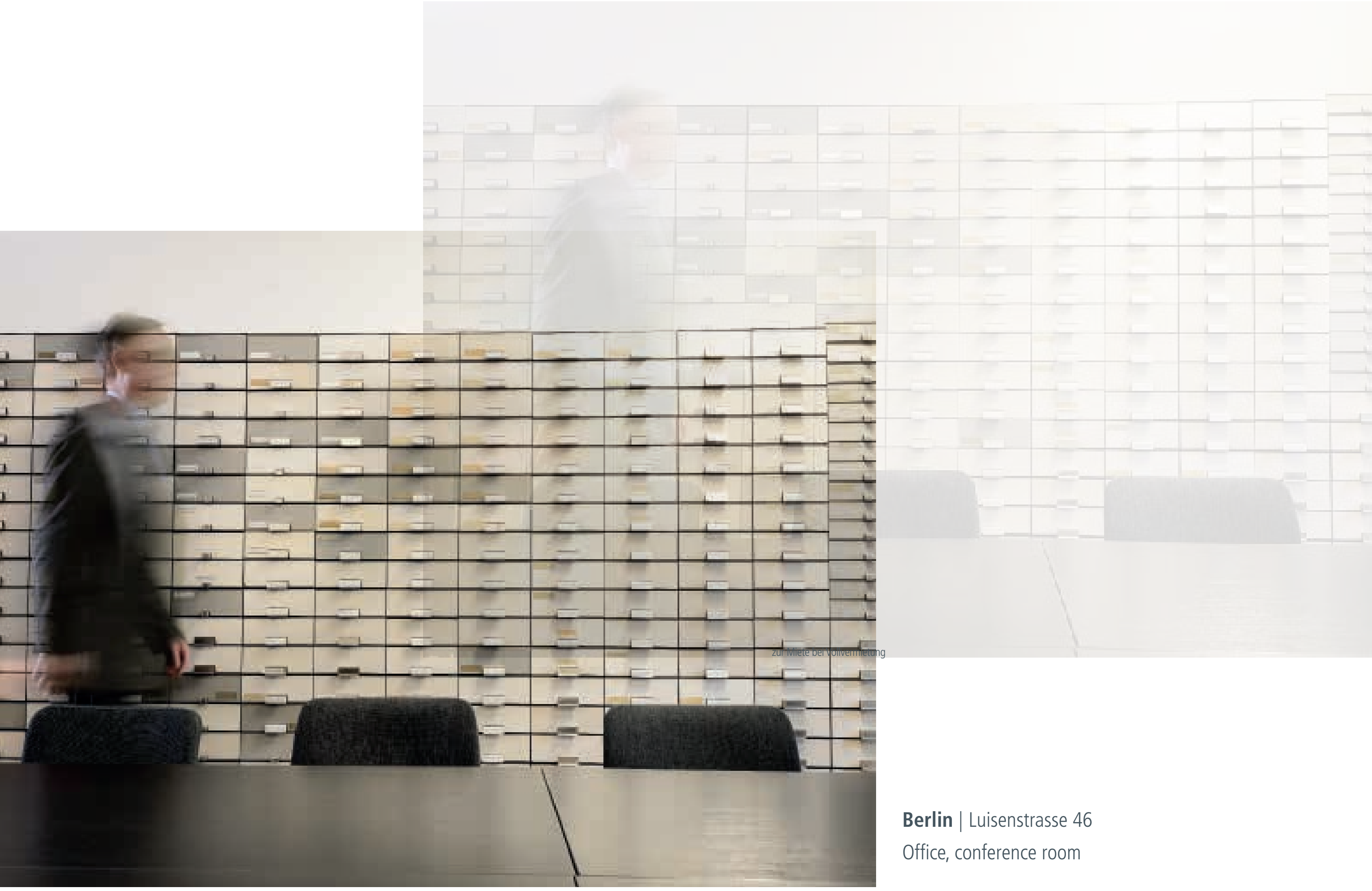
Broad basis

Thanks to the very conservative business policy and risk structure of POLIS, it has always successfully steered a course through even turbulent times. The past few years have moreover seen regular, steady growth. It is the declared aim of POLIS to achieve further future growth across all business areas. There is considerable breadth to the Company's strategy. Buying, holding, selling, managing, refurbishing, converting and, where possible, extending and supplementing: all are conceivable and possible. When looking to buy properties, POLIS therefore focuses less on properties that can be fully let than on ones offering development potential.

Because excessive asking prices render it impossible to achieve the expected returns in the present market environment, the location requirements are assessed on a case-by-case basis when identifying suitable properties. However that does not mean POLIS will abandon the profile of requirements it fundamentally applies with regard to location.

As such, POLIS will remain diversified and be well placed to realize fresh growth.


working motion
ERGO + PHYSIOTHERAPIE



Berlin | Luisenstrasse 46
Office, conference room

OUR BUSINESS MODELL

POLIS Immobilien AG actively manages its portfolio based on a clearly defined strategy, many years of experience and a sound financial footing. Our profitability rests on a portfolio of quality properties that provide steady cash flows. The high degree of investment security of these "Core" properties is based on their good central locations in the most important German business centres, high technical standards and a strong diversification in the composition of tenants.

The expertise we have acquired over many years of actively managing such properties enables us to carry out modernization projects successfully. We substantially increase the value of our "Core" and "Value Added" properties, which we realize within the scope of a moderate buy and sell-concept. Since 2011, through our new "third-party asset management" business area we have also been offering our expertise for investment properties in which we hold a share.

Moderate buy and sell-strategy

POLIS

OUR REAL ESTATE OVERVIEW

DUSSELDORF

4 Objects
EUR 30.780 thousands
13.550 sqm

COLOGNE

6 Objects
EUR 80.640 thousands
33.200 sqm

FRANKFURT A. M.

1 Object
EUR 8.460 thousands
3.600 sqm

STUTTGART

3 Objects
EUR 61.360 thousands
23.700 sqm

MUNICH

1 Object
EUR 9.990 thousands
3.400 sqm

HANOVER

2 Objects

EUR 8.600 thousands

6.200 sqm

BERLIN

3 Objects

EUR 58.690 thousands

20.600 sqm

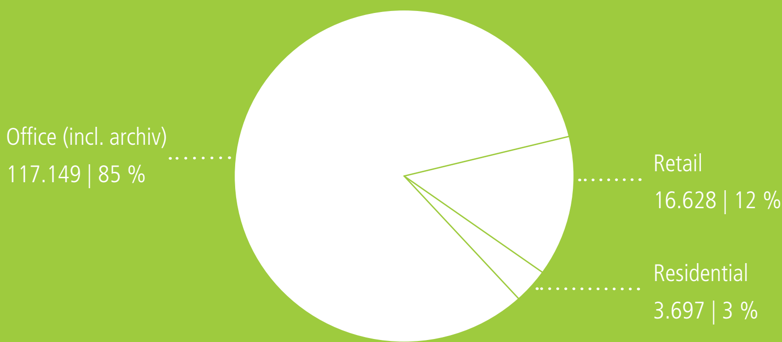
DRESDEN

3 Objekcts

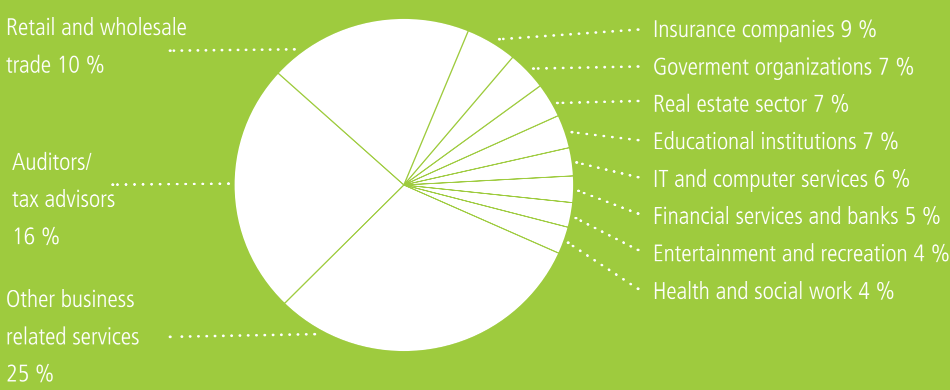
EUR 54.570 thousands

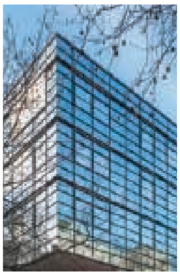
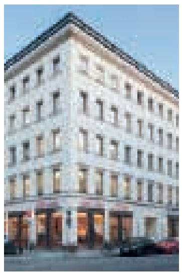
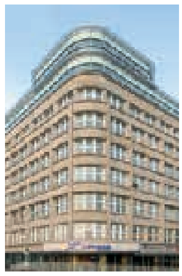
33.200 sqm

Portfolio by use | basis: sqm | 137.500 sqm



Distribution of rental revenues by industry | %



		BERLIN	BERLIN	BERLIN
		Rankestr. 21/ Lietzen-burger Str. 44, 46	Luisenstrasse 46	Potsdamer Strasse 58
Transfer of possession		30.09.2013	15.05.2002	25.02.2001
Year built		1993/1969/1957	1936	1930
Remaining useful life of building	years	58	53	55
Renovated/modernized		-	2002	2004
Market value	EUR '000	30.730	12.240	15.720
Last external appraisal		31.12.2014	30.06.2014	30.06.2014
Discount Rate[1]		6,7%	6,5%	6,8%
Total Area (rounded)[2]	sqm	11.950	3.150	5.500
Office	sqm	10.269	2.622	4.110
Retail	sqm	1.089	440	1.072
Residential	sqm	0	0	0
Archiv	sqm	588	71	323
Parking space	number	132	22	20
Ø Average remaining term of leases - 2014[3]	years	7,2	2,6	2,3
Occupancy rate (sqm) 2014[4]		96%	100%	100%
Occupancy rate (sqm) 2013[4]		96%	100%	99%
Occupancy rate (Turnover) 2014 - in relation to the rent fully leased[5]		96%	99%	100%
Occupancy rate (Turnover) 2014 - in relation to the potential rent[5]		89%	97%	94%
Rent 2014[6]	EUR '000	1.769	679	887
Annualized current rent 2014[5]	EUR '000	1.770	705	952
Rent if fully leased 2014[7]	EUR '000	1.851	709	955
Annualized potential rent (FERI) 2014[8]	EUR '000	1.993	724	1.015
Return of potential rent 2014[9]		6,5%	5,9%	6,5%
FERI-Rating[10]		B+	B+	A-

Explanation:

1 According to value appraisal by Feri EuroRating Services AG; Discount rate of the discounted-cash-flow-model (IRR)
2 May differ from sum of individual values due to rounding differences
3 Weighted average based on rental revenues
4 Calculated as a ratio of the leased space to the overall space
5 Included are revenue reduction due the rentless time.
6 Based on audited Group financial statements as of the respective year applying IFRS - without sold properties
7 Sum of the contractually agreed rent and notional rent assuming that all unoccupied rental space is leased at the market rate deemed appropriate by Feri EuroRating Services AG
8 Notional rent assuming that all rental space is leased at the market rate deemed appropriate by Feri EuroRating Services AG
9 Relation of annualized potential rent to market value of the property 31 December 2014
10 According to value appraisal by Feri EuroRating Services AG to current valuation date
11 Ground leases Landschaftstrasse 2 and Hospitalstrasse 10/10a. Return on potential rent based on building value
12 Letting of special space
13 Weighted average
14 Minority Investments in property companies

DRESDEN	DRESDEN	DRESDEN	DUSSELDORF	DUSSELDORF	DUSSELDORF
Altmarkt 10/ Kramergasse 2/4	Könneritzstrasse 29,31,33	Palaisplatz 3/3a	Berliner Allee 42	Berliner Allee 44	Berliner Allee 48
01.11./01.01.2011	01.01.2011	01.01.2011	01.11.2007	01.08.2000	01.10.2006
2000	1998	1840	1960	1957	1956
52	48	47	41	53	48
-	-	1997	-	2001	-
37.770	11.130	5.670	6.960	8.630	5.280
31.12.2014	31.03.2014	31.03.2014	30.06.2014	30.06.2014	30.06.2014
6,7%	6,9%	6,8%	6,8%	6,8%	6,8%
18.950	10.400	3.900	3.500	3.750	2.650
11.485	9.090	3.689	2.170	3.184	1.858
5.273	1.030	0	812	241	336
1.313	0	0	229	23	214
863	278	196	269	298	242
201	90	0	17	17	0
2,5	3,8	4,8	2,4	2,9	1,1
99%	100%	99%	97%	99%	84%
96%	97%	73%	86%	47%	94%
100%	100%	99%	98%	99%	84%
98%	97%	96%	82%	89%	82%
2.489	877	234	392	435	328
2.600	905	425	414	532	327
2.610	908	427	421	537	390
2.656	935	441	503	600	398
7,0%	8,4%	7,8%	7,2%	7,0%	7,5%
B+	A	B+	B+	B+	B+

FERI rating categories

»Outstanding«	AAA	»Satisfactory«	B
»Excellent«	AA	»Sufficient«	C
»Very good (+)«	A+	»Moderate«	D
»Very good«	A	»Weak«	D–
»Very good (–)«	A–	»Poor«	E
»Good«	B+	»Very poor«	E–




		DUSSELDORF	FRANKFURT A. M.	HANOVER	HANOVER
		Steinstrasse 27	Gutleutstrasse 26	Landschaftstrasse 2	Landschaftstrasse 8
Transfer of possession		01.09.2000	30.06.2001	31.12.2006	31.12.2006
Year built		1960	1970	1983	1885
Remaining useful life of building	years	45	55	46	56
Renovated/modernized		1998	1996	-	2006
Market value	EUR ’000	9.910	8.460	4.560	4.040
Last external appraisal		30.06.2014	31.12.2014	31.03.2014	31.03.2014
Discount Rate[1]		6,5%	6,7%	6,9%	6,7%
Total Area (rounded)[2]	sqm	3.700	3.600	3.600	2.600
Office	sqm	3.455	3.501	3.582	2.166
Retail	sqm	0	0	0	0
Residential	sqm	0	0	0	0
Archiv	sqm	222	78	13	437
Parking space	number	20	29	12	0
Ø Average remaining term of leases - 2014[3]	years	4,4	0,0	2,8	2,0
Occupancy rate (sqm) 2014[4]		100%	0%	100%	100%
Occupancy rate (sqm) 2013[4]		99%	100%	100%	100%
Occupancy rate (Turnover) 2014 - in relation to the rent fully leased[5]		100%	0%	99%	100%
Occupancy rate (Turnover) 2014 - in relation to the potential rent[5]		96%	0%	98%	88%
Rent 2014[6]	EUR ’000	597	0	410	291
Annualized current rent 2014[5]	EUR ’000	613	0	463	291
Rent if fully leased 2014[7]	EUR ’000	613	759	466	291
Annualized potential rent (FERI) 2014[8]	EUR ’000	638	759	473	330
Return of potential rent 2014[9]		6,4%	9,0%	10,4%	8,2%
FERI-Rating[10]		B+	B	B+	B+

COLOGNE	COLOGNE	COLOGNE	COLOGNE	COLOGNE	COLOGNE
Ebertplatz 1	Gustav-Heine-mann-Ufer 54	Hansaring 20	Konrad-Adenauer-Ufer 41-45	Neumarkt 49	Weyerstrasse 79-83
15.06.2007	01.10.2007	01.11.2007	01.04.2007	31.12.2007	01.05.2008
1960	1989	1975	1953	1957	1962
45	49	47	58	45	45
2002	-	2006	2010	2005	2008
9.300	18.240	4.890	22.670	8.960	16.580
31.03.2014	31.03.2014	31.12.2014	31.03.2014	31.03.2014	31.12.2014
6,6%	6,6%	6,9%	6,3%	6,8%	6,8%
4.150	7.600	2.250	6.000	3.900	9.400
3.218	7.009	2.093	5.582	3.187	7.237
199	0	0	0	544	1.302
0	0	0	0	0	0
719	568	146	429	177	829
0	199	10	53	9	94
5,9	4,2	5,1	2,8	3,9	5,0
98%	98%	72%	96%	100%	98%
98%	98%	57%	96%	100%	97%
99%	98%	73%	99%	100%	99%
100%	94%	76%	97%	95%	83%
587	1.219	158	1.117	583	994
609	1.203	261	1.219	590	1.007
613	1.225	356	1.233	590	1.016
555	1.281	344	1.255	622	1.219
6,0%	7,0%	7,0%	5,5%	6,9%	7,4%
B+	B+	B	A-	B	B




		MUNICH	STUTTGART	STUTTGART	STUTTGART
		Lessing-strasse 14	Böblinger Strasse 8/ Arminstrasse 15	Quartier Büchsenstrasse	Tübinger Strasse 31/33
Transfer of possession		15.12.2007	01.11.2007	30.06.2007	31.12.2006
Year built		1967	1973	1907-1970	1949
Remaining useful life of building	years	47	41	44-60	47
Renovated/modernized		2010	2004	2010	2000
Market value	EUR '000	9.990	3.820	46.540	11.000
Last external appraisal		30.06.2014	30.09.2014	30.09.2014	30.09.2014
Discount Rate[1]		6,7%	6,8%	6,5%	6,6%
Total Area (rounded)[2]	sqm	3.400	2.550	16.600	4.600
Office	sqm	2.613	1.153	11.744	2.740
Retail	sqm	438	920	1.653	1.278
Residential	sqm	0	359	1.339	220
Archiv	sqm	339	132	1.840	334
Parking space	number	38	36	130	13
Ø Average remaining term of leases - 2014[3]	years	2,1	2,4	3,7	7,8
Occupancy rate (sqm) 2014[4]		100%	93%	95%	94%
Occupancy rate (sqm) 2013[4]		100%	86%	90%	93%
Occupancy rate (Turnover) 2014 - in relation to the rent fully leased[5]		98%	92%	96%	97%
Occupancy rate (Turnover) 2014 - in relation to the potential rent[5]		88%	81%	89%	85%
Rent 2014[6]	EUR '000	604	266	2.599	633
Annualized current rent 2014[5]	EUR '000	631	283	2.661	625
Rent if fully leased 2014[7]	EUR '000	645	306	2.767	646
Annualized potential rent (FERI) 2014[8]	EUR '000	717	350	2.981	735
Return of potential rent 2014[9]		7,2%	9,2%	6,4%	6,7%
FERI-Rating[10]		B+	B+	B+	B+

PORTFOLIO	OTHER INVESTMENTS14 [14]	TOTAL ASSETS
51[13]		
313.090	4.594	317.684
6,6%		
137.500		
107.758		
16.628		
3.697		
9.391		
1.142		
3,9[13]		
95%[13]		
93%[13]		
94%		
89%		
18.148		
19.085		
20.333		
21.526		
6,9%		
B+		

GROUP MANAGEMENT REPORT OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2014

GROUP STRUCTURE AND BUSINESS ACTIVITIES

The business model of POLIS Immobilien AG

POLIS Immobilien AG, founded in Berlin in 1998 and with its registered office in Berlin, acquires office buildings throughout Germany for its own portfolio. By actively managing our own properties, including by their conversion, modernization, extension, letting and other measures, we continuously increase the value of our real estate holdings that we realize by selectively selling properties within the scope of our moderate buy-and-sell strategy. We focus exclusively on office buildings in attractive central locations in key German business centres and invest in properties with specific potential for appreciation or a stable cash flow. The strong focus on the German market, selected cities, central locations and typically buildings erected between 1950 and 1970 leads to a high degree of specialization, which increases the efficiency of our work and allows us to achieve excellent results in planning and carrying out projects. Our own asset and property management team manages the property portfolio from a commercial and technical perspective and is responsible for all key aspects of business operations such as acquisitions and sales, development, letting and administration.

Group structure and management

POLIS Immobilien AG (hereinafter POLIS) is an operational holding company and is managed by two officers. The Chief Executive Officer is responsible for portfolio and asset management, property management, human resources and legal matters, while the Chief Financial Officer is in charge of controlling, finances and accounting, taxes, risk management, organization and information technology. Our employees are employed by the holding company, while the properties are held via property companies (which usually take the German legal form of GmbH & Co. KG). POLIS and all property companies have their registered offices in Berlin. There are no branch offices.

Business processes

The principal business processes of POLIS involve letting office, retail and residential properties, buying and selling properties, and investing in order to increase the value of our real estate holdings. POLIS additionally provides asset management services for third parties.

Corporate rating confirms creditworthiness and corporate quality

POLIS attaches high importance to the financial stability and quality of all corporate areas. In December 2013, POLIS Immobilien AG received its first ever “A-” rating from FERI EuroRating Services AG following a comprehensive corporate rating process. The rating was confirmed by FERI EuroRating Services AG on 3 December 2014 and supplemented by a positive outlook. This investment-grade rating reflects not only the sound financial standing and quality of the key assets (properties), but also the quality of the internal structures and procedures evaluated, including risk management.

Key external factors

The POLIS business model is substantially influenced by rent, location and competitive developments in the German property market, and in particular the office market, by interest developments in the money and capital markets, and by statutory and regulatory requirements.

Principal changes within the Group in financial year 2014

The occupancy rate was increased further in 2014 (from 93% to 95%). As a result, we effectively have full occupancy. We also continued to invest heavily in the existing property portfolio. The sale of two smaller properties in Mainz further optimized the property portfolio and signalled our withdrawal from this minor location. There were no material changes in the strategy or corporate structure.

CORPORATE MANAGEMENT, OBJECTIVES AND STRATEGY

Internal control system

Control system

The control system represents an integrated process between asset and portfolio management on the one hand, and finances and controlling on the other hand. Management regularly compares the results actually achieved with the projected data, by way of a target/performance comparison. Discrepancies trigger the development of different courses of action that are then implemented in the letting approach or by optimizing the portfolio.

Key control system indicators

The key control system indicators for POLIS Immobilien AG are rental revenues, funds from operations (FFO), consolidated earnings before tax (EBT), cash flow from operating activities, the equity ratio, the loan-to-value ratio and net asset value (NAV).
For investments we determine the internal rate of return (IRR) and compare it with a minimum interest rate that is commensurate with the risk.

Corporate objective

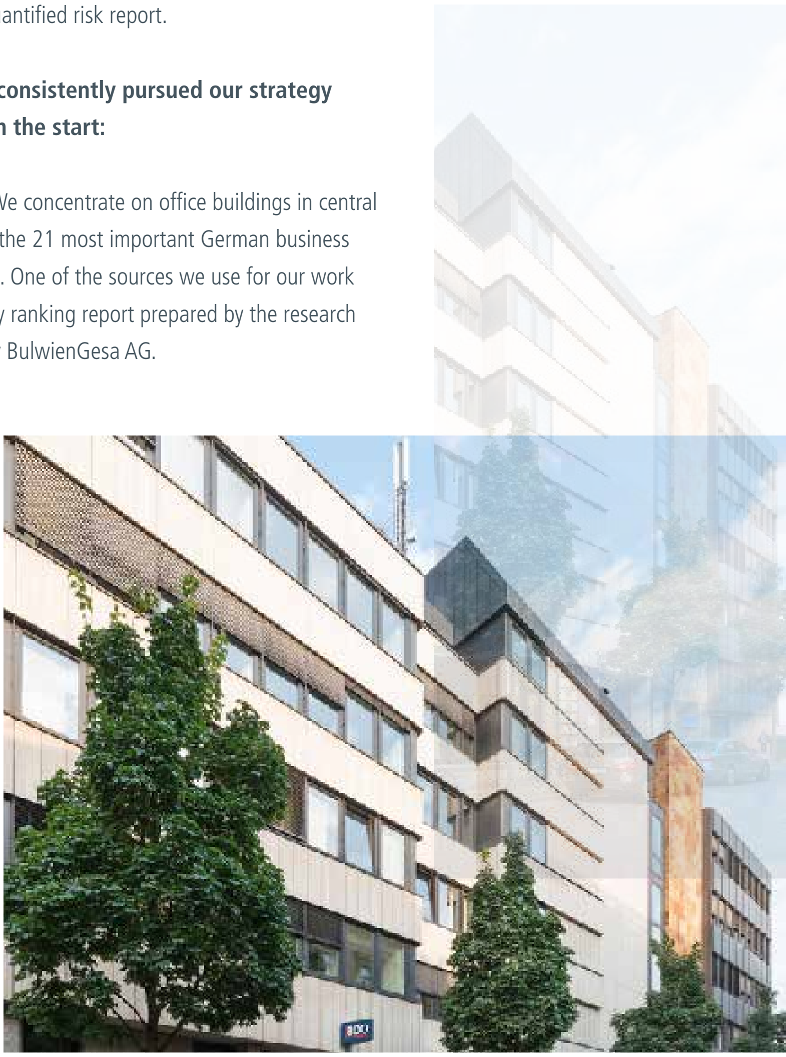
The objective of POLIS is to achieve a sustained increase in the value of the Company. Our aim is to generate a stable and attractive overall rate of return by actively managing and continuously developing a high-quality office property portfolio with properties in central locations, as reflected in a sustainable dividend yield and an increase in the net asset value (NAV).
We strive to maintain a balanced risk/return profile by establishing an appropriate portfolio structure and ensuring that debt capital remains at moderate levels.

Corporate strategy

Ever since its founding, POLIS has endeavoured to satisfy the requirements of the capital market. The long-term creation of value and a high degree of transparency have always been the guiding principles of our corporate management. POLIS has received several awards as a transparent property company. This highlights our commitment to providing detailed information about our property portfolio. Key information on each building and its valuation, updated quarterly, is given online (www.polis.de) and in the portfolio overview in the Annual Report. Since 2013 we have also provided sensitivity analyses to enable the reader to understand how changes in the long-term gross profit, rent growth, rental income and discount rate would impact the value of the investment properties. We also publish a comprehensive, quantified risk report.

We have consistently pursued our strategy right from the start:

- **Focus:** We concentrate on office buildings in central areas of the 21 most important German business locations. One of the sources we use for our work is the city ranking report prepared by the research company BulwienGesa AG.



Hanover | Landschaftstrasse 2

BASIC PROFILE OF THE GROUP

- **»Core« to »Value Added«:** We buy properties with good occupancy rates and modern facilities and requiring little, if any, optimization in order to generate a steady cash flow (Core) as well as properties that are vacant or in need of modernization and exhibit tangible potential for added value (Value Added). The target share of Core properties as a basis for generating a continuous and steady cash flow is at least 75%.

- **Balanced risk/return profile:** A balanced risk/return profile is maintained by continuously evaluating and managing the composition of the portfolio between Core and Value Added qualities and by limiting the proportion of debt capital to no more than 60% of the market values of the investment properties.

- **Securing rental income through a »multi-tenant strategy«:** Our business model is prmarily focused on office buildings with several tenants. This significantly reduces the risk of major losses of rental income, for example upon the expiry of individual lease agreements, as well as dependence on specific industry trends. Only one property had a single-tenant structure in 2014.

- **Fungible property sizes:** We invest in properties with market values of between EUR 5 million and EUR 50 million. Smaller properties in our portfolio are disposed of when we are best able to realize the optimum value.

- **Moderate »buy-and-sell concept«:** The intended value added is to be realized by way of individual sales.

- **Active asset management and tenant orientation: :** The rigorous pursuit of value-adding strategies and the tailoring of all processes to tenant requirements are among the fundamental principles behind our activities.

- **Capital market orientation:** Transparent communication of our business model and of information on our properties as well as the observance of EPRA standards are second nature to us and pave the way for sound investor and creditor relations.

- **Sustainability:** We are committed to providing spaces for our tenants that are environmentally compatible, resource-efficient and economical and support the health and performance of our tenants and their personnel. We endeavour to carry out all of our (construction) projects and (procurement) processes in an environmentally optimized manner.

- **Medium-term development of the property portfolio:** We plan to continue to develop our office property portfolio while maintaining our current priorities and high quality standards. This will allow us to achieve economies of scale that will increase profitability. We have been successfully implementing these strategic goals ever since POLIS was established and have seen them bring us steady growth. Our own property portfolio (excluding third-party asset management) has reached a current market value of approximately EUR 313 million and is set to continue growing.

Berlin | Potsdamer Strasse 58
View from the patio

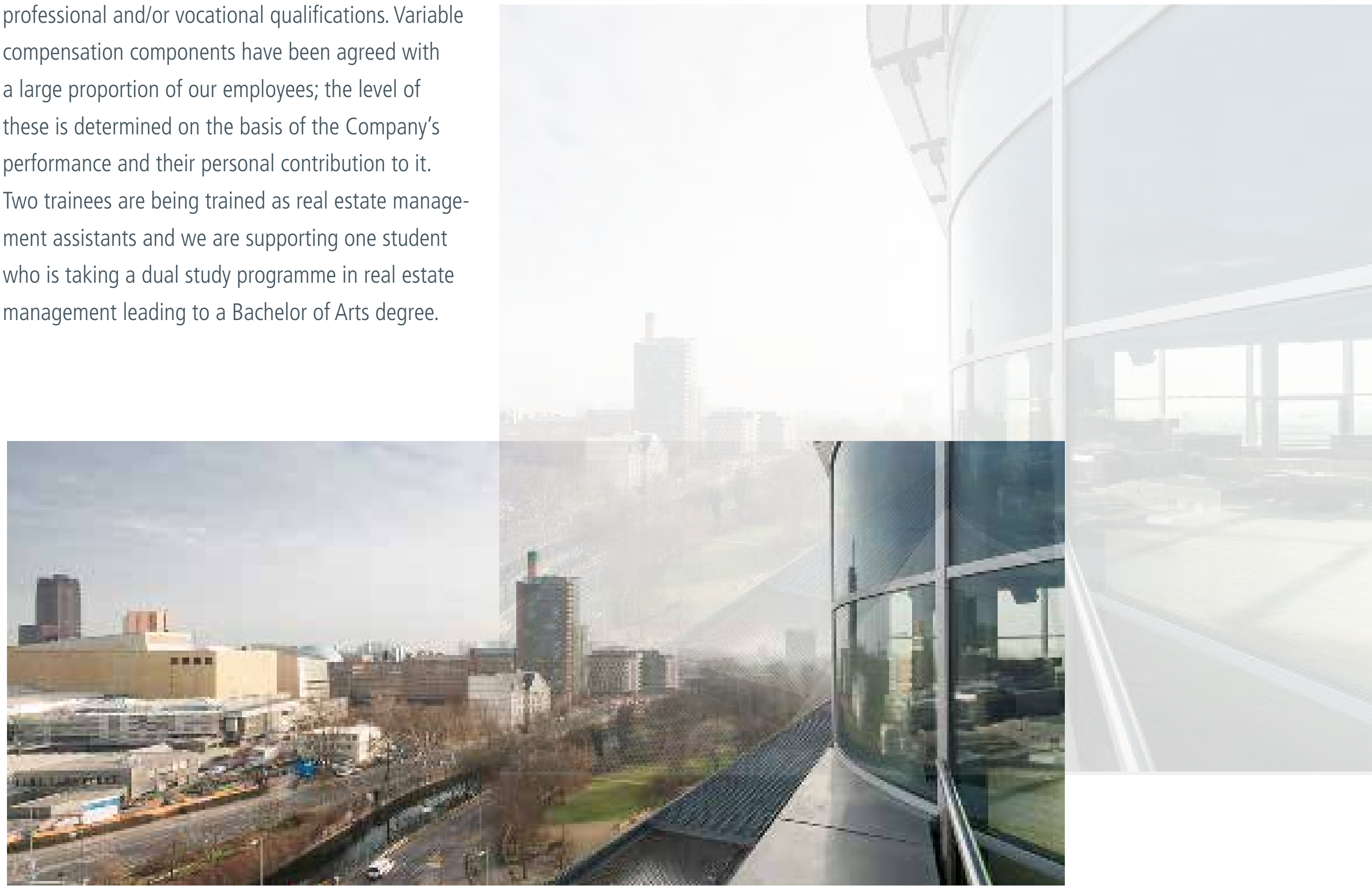
- **Third-party asset management:** We also intend to continue making our Company's expertise available to third parties by providing asset management for investment properties where we work alongside a third-party investor. Such an arrangement means the business partner benefits from access to professional asset management, and POLIS improves its earnings by generating additional income from services. The further expansion of this business area is influenced by how the tough current regulations of the new German Investment Code (Kapitalanlagegesetzbuch) are being implemented.

- **Qualified employees:** Qualified and motivated employees are indispensable if we are to achieve our corporate objectives. Flat management structures and open communication are the prerequisites for initiative, trust and performance. 25 of our employees are university graduates or have obtained other professional and/or vocational qualifications. Variable compensation components have been agreed with a large proportion of our employees; the level of these is determined on the basis of the Company's performance and their personal contribution to it. Two trainees are being trained as real estate management assistants and we are supporting one student who is taking a dual study programme in real estate management leading to a Bachelor of Arts degree.

Key economic factors

Development of the commercial property market in Germany

We generate our income from rental revenues and from the sale of properties. In addition, the results of the revaluation of our property portfolio strongly influence our annual financial results. The terms of new and follow-on leases and of acquisitions and sales, as well as the development of the market values of our own properties, are primarily determined by the development of the German office property market. This development is influenced by macroeconomic factors, in particular overall economic growth, interest rates, companies' expectations regarding their future economic development, the supply of and demand for office properties as well as the attractiveness of Germany as



BASIC PROFILE OF THE GROUP

a business location, the statutory framework and the fiscal environment.
Furthermore, the results achieved by POLIS depend on market trends at the specific locations where our properties are situated; these locations are subject to specific regional factors such as demographic trends, regional economic growth, the development of the service sector, the supply of office space and the movement of companies into and out of the area.

Development of rental revenues
The general level of rent for office properties in Germany or for property or location-specific reasons means rent levels may change when concluding follow-on leases. As a general rule, rising vacancy rates in a market usually lead to reduced rental income and vice versa. Since many lease agreements contain a clause for adjusting the rent in line with inflation, the inflation rate also influences the level of rental income.

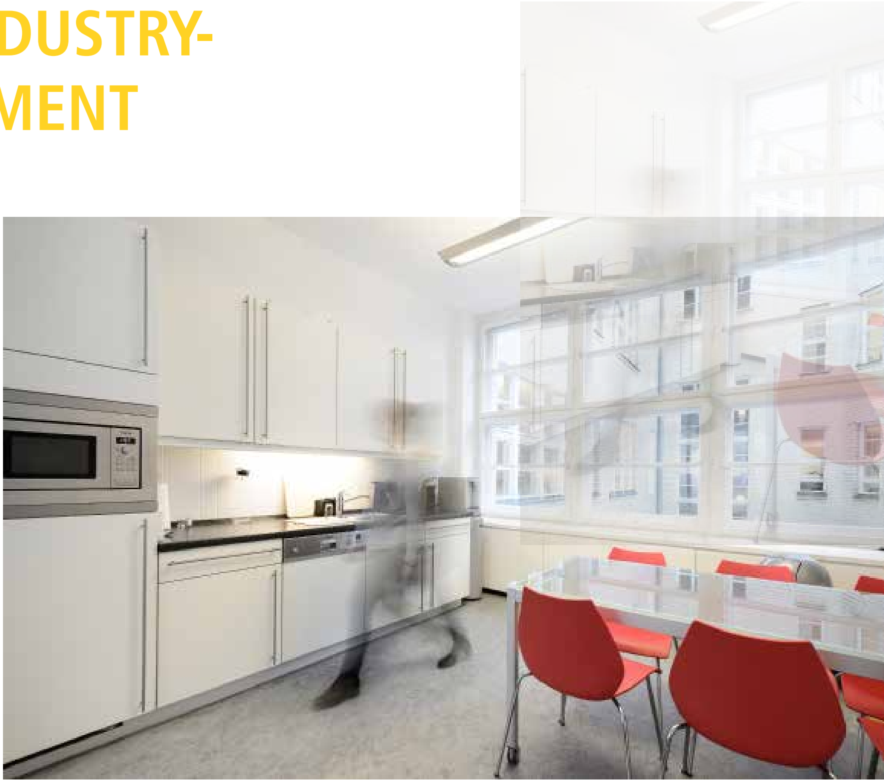
Finance costs and interest rate levels
The profitability of POLIS is influenced by the development of general interest levels, because the acquisition of properties is typically financed with the help of external financing representing up to 60% of the property value. Where reasonable, we intend to keep loans on a floating rate basis in order to benefit from low short-term interest rates. We conclude interest rate hedges that largely mirror the individual loans taken out at variable interest rates as a means of reducing the impact of market value fluctuations of interest rate hedging instruments on consolidated earnings.

Competitive position

Market environment
BulwienGesa AG covers around 130 locations in Germany in its research. Of those locations, 63% of office rental space is situated at the 21 most important office locations; they are our focus area. The ownership structure is highly fragmented. Only a small proportion of the overall office space in Germany is owned by listed property companies or investment funds, while companies and private investors continue to be well represented by international standards. The market for acquiring and managing office properties remains sizeable and provides opportunities for further development for specialized property companies.

Positioning
In this market environment, we consider ourselves a specialist for the modernization and active management of office properties in a segment that is focused on the location, size and quality of spaces. Our properties are situated in good to excellent office locations, typically represent an order of magnitude that is interesting for private as well as institutional investors, and offer high-quality spaces at good value for money. With its concept, POLIS holds a unique position among listed German property companies.

ECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT



Berlin | Potsdamer Strasse 58

Development of overall economic environment

- **Gross domestic product up 1.6% in 2014**
- **Positive situation on the labour market**
- **Inflation in Germany declined to 0.9% in 2014**
- **Short-term interest rates fell to 0.078% (three-month EURIBOR), with 10-year rates well down at 0.815%**

The ifo Business Climate Index for trade and industry in Germany in 2014 initially climbed from 109.4 (12/2013) towards the middle of the year, then slipped back markedly to 103.4 in October, recovering to 105.5 by the end of the year. The geopolitical crises were behind this uncertainty. Nevertheless, it has latterly been outweighed by the positive effects of the sharp drop in oil prices and a weakening of the euro. The German economy continues to fare well in a European context that remains weak; low crude oil prices are supporting the economy and the euro exchange rate is providing an added boost to exports.

According to the Federal Statistical Office, gross domestic product was 1.6% in 2014 compared with 0.1% in 2013. The labour market saw Germany's working population rise yet again to a new record level of 42.65 million in 2014. The unemployment rate in December 2014 was 6.4% (compared with 6.7% in the prior-year month). Measured against the rest of Europe, Germany had a seasonally adjusted unemployment rate of 5.0% and therefore the lowest level in Europe.
Germany's inflation rate in 2014 was 0.9%, down from 1.5% in 2013, and declined steadily over the year except for a flat period mid-way through the year. Whereas inflation started the year at 1.3% in January, by December it was only 0.2%. Inflation for the eurozone even moved into negative territory in December, at -0.2%. Inflation's low overall level is attributable to various factors such as lower commodity prices, in particular mineral oil and food prices, whereas services and residential rents became more expensive.
Short-term interest rates as a whole showed a marked drop in 2014 (three-month EURIBOR down from 0.287% at 2013 year-end to 0.078% at 2014 year-end). There was an even sharper fall in long-term interest rates over the course of 2014. The ten-year swap rate decreased from 2.15% at 31 December 2013 to 0.815% at 31 December 2014.

Industry-specific environment

Office space turnover was on the weak side in 2014 but improved substantially towards the end of the year and overall exceeded the previous year's figures. The volume

ECONOMIC REPORT

	GDP growth	Inflation	3-month EURIBOR	5 years (swap rate)	10 years (swap rate)
	%	%	%	%	%
2014	**1,4**	**0,9**	**0,078**	**0,359**	**0,815**
2013	0,4	1,5	0,29	1,26	2,15
2012	0,9	2	0,19	0,78	1,57
2011	3	2,3	1,13	1,74	2,38
2010	3,6	1,1	1,01	2,47	3,29
2009	-5	0,4	0,7	2,79	3,59

Sources: IFO Institute: ifo Business Survey results, December 2014, Federal Employment Agency, German Institute for Economic Research, Federal Statistical Office Wiesbaden

of turnover in the seven major real estate locations came to 3.02 million sqm in 2014, a rise of 3.0% on the previous year. There was marked regional variation in the development. While the volume of turnover climbed by a substantial 36% in Berlin, turnover in Düsseldorf fell markedly by 22%. Alongside Berlin, the turnover figures for Hamburg, Stuttgart and Munich also improved. The healthy figures are again attributable to the strong labour market in the service sector, which directly impacts the office market and demand for office space. Turnover in this market in 2015 is expected to remain at the 2014 level.

Trends in the investment market for office properties in Germany

Transaction volume rises again

The transaction volume in the commercial property sector again increased substantially, from approximately EUR 30.4 billion in 2013 to around EUR 39.8 billion in 2014, the best result since the start of the financial crisis. Investments in office properties accounted for approximately 44% of the transaction volume, followed by retail properties, which represented a share of approximately 22% of transactions. Over half of transactions took place in the top seven locations Berlin, Düsseldorf, Frankfurt, Hamburg, Stuttgart, Cologne and Munich. The robust overall economic situation, with a steady labour market and rents in the office market centres still rising, coupled with high investment pressure from equity providers and banks seeking to lend, leads us to expect a similarly high volume of transactions for 2015. The limited supply of Core properties, coupled with high demand, led to a decline in prime yields in 2014. Initial yields are expected to stabilize at this level in 2015.

Trends in the investment market for office properties in Germany

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Trends in the office property rental market in Germany

New construction activity in 2014 in the seven top locations reached 988,000 sqm, an overall increase of 11% on the prior-year level, though expectations had been even more ambitious. It is worth noting that some 80% of the new space due for completion had already been let. In other words, construction activity did not extend beyond demand already registered. Munich and Frankfurt accounted for over half the new construction volume. A further slight increase to just over 1.0 million sqm is expected in 2015.

Prime rents increased slightly by 0.6% in 2014, in particular in Hamburg, Stuttgart and Munich. Düsseldorf was the only location where prime rents fell, in that instance by 5.5%. A further rise of slightly more than 1% is expected for 2014.

Falling vacancies in the office market

Vacancies for office space in the seven leading cities fell by a further 7% on the previous year to 6.8 million sqm. The vacancy rate is consequently now only 7.6%. However office space fitted out to a high standard made up only around 35% of the vacant volume.

Vacancies | Office space turnover

						thousand sqm			thousand sqm
Locations		2012		2013		**2014**	2012	2013	**2014**
Berlin	1.441	544	1.395	455	1.305	**617**	8,5	8,2	**7,7**
Hamburg	1.206	436	1.137	440	998	**525**	8,2	7,8	**6,8**
Dusseldorf	991	348	1.023	416	995	**324**	11,0	11,4	**10,9**
Frankfurt	1.416	512	1.327	441	1.253	**378**	11,9	11,1	**10,4**
Stuttgart	463	190	445	256	440	**277**	5,6	5,3	**5,2**
Munich	1.674	754	1.457	625	1.327	**641**	8,4	7,3	**6,6**
Cologne	590	255	530	301	490	**261**	7,9	7,0	**6,5**

Vacancies incl. subleases; rental space turnover incl. owner-occupiers

Sources for this section: CBRE Germany MarketView Snapshot Q4 2014, Jones Lang LaSalle Office Market Overview Q4 2014 and Investment Market Overview, E&Y Trend Barometer Real Estate Investment Market 2015

OVERVIEW OF BUSINESS PERFORMANCE

The key events of the past financial year can be summarized as follows:

- Further rise in occupancy rate. We again achieved a very high level of take-up, letting approximately 31,664 sqm. New contracts/supplements accounted for 6,585 sqm and extensions of existing lease agreements for 25,079 sqm. The occupancy rate increased from 93% to 95%.

- In financial year 2014, we invested around EUR 4.2 million in our investment properties. Our focus was mainly on modernizing rental space, including in the properties at "Berliner Allee 44" in Düsseldorf and "Quartier Büchsenstrasse" in Stuttgart. Conversion work also started on the property at "Gutleutstrasse 26" in Frankfurt.

- To optimize our investment portfolio we sold the properties "Rheinstrasse 43-45" and "Rheinstrasse 105-107" in Mainz. The disposals produced a negative sales result of EUR -400 thousand overall because the tenant fit-outs carried out in 2014 could not be recouped in the purchase price.

- As a result of successfully letting modernized rental space and extending existing lease agreements on improved terms, we achieved a positive valuation result for many investment properties. Due to expiring lease agreements, an identifiable need for maintenance work or changed rental forecasts at specific locations, some investment properties suffered a drop in their market values. Profit was diminished in particular by the devaluation of the property at "Gutleutstrasse" following the departure of the sole tenant and the work now taking place to convert the property to multi-tenant use. Costs also arose for the property at "Böblinger Strasse" in Stuttgart, where extensive renovation work is required on the underground car park. There was a markedly positive development in the values of the properties at "Rankestr. 21/ Lietzenburger Str. 44-46" in Berlin, "Altmarkt 10/Kramergasse" in Dresden and "Quartier Büchsenstrasse" in Stuttgart. Overall,

ECONOMIC REPORT

there was a positive valuation result for the investment properties of EUR 2,911 thousand.

- The good take-up level in 2014 and earlier years as well as the active management of lease agreements produced a 1% rise in rental income to EUR 18,396 thousand, despite the disposal of two investment properties in Mainz and the handover of one property sold in the previous year. Net rental income declined by approximately 1% to EUR 14,548 thousand. After adjusting for valuation effects, funds from operations (FFO) rose sharply to EUR 6,713 thousand (+34%).

- Consolidated earnings before tax for 2014 showed a further rise on 2013, from EUR 9,808 thousand to EUR 10,262 thousand. The growth is first and foremost attributable to the improved result from other income and expenses (including from a warranty payment) and to a higher result from the valuation of the investment properties.

- Cash flow from operating activities was up 20% year on year at EUR 10,837 thousand.

- The net asset value at 31 December 2014 showed a 3.9% increase relative to the previous year to EUR 168.6 million, and the net asset value per share increased from EUR 14.67 to EUR 15.25.

Development of real estate business

Changes in the portfolio

Following the sale of the property at "Immermannstrasse 11" in Düsseldorf in December 2013, the property was transferred to the buyer in February 2014. The properties at "Rheinstrasse 43-45" and "Rheinstrasse 105-107" in Mainz were sold in June and July 2014 respectively, as a result of which our portfolio no longer includes the location Mainz. Both disposals were close to the most recent valuation at 31 December 2013, producing a negative overall sales result of EUR -400 thousand. The reason is that tenant fit-outs carried out in "Rheinstrasse 105–107" in 2014 at a cost of EUR 352 thousand could not be realized through the purchase price. Both were sold with a view to optimizing the portfolio since, based on our current planning, we did not expect the value of the investment properties to rise and we wished to scale back the number of smaller locations.

Refurbishments

- **STUTTGART** | Büchsenstrasse 28
  > Project completion and full occupancy achieved

In the modernization project at "Büchsenstrasse 28" the last remaining vacant space of approximately 513 sqm was let in the course of the year. The tenant fit-out was completed and the rental space was handed over in the final quarter of 2014.

- **FRANKFURT** | Gutleutstrasse 26
  > office tenant vacates the building

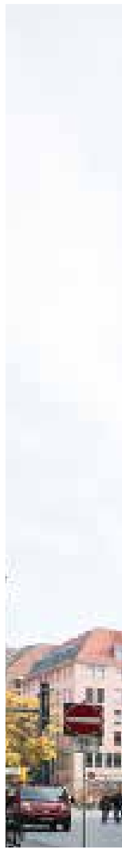
The sole tenant of the investment property at "Gutleutstrasse 26" in Frankfurt terminated the lease with effect from 31 December 2013 and vacated the building. The construction work needed to convert and modernize the building before it can be relet has already started and is progressing according to schedule. By mid-way through 2015 the building will have up to seven office spaces, which will be fitted out to modern standards and let out quickly.

- **DUSSELDORF** | Berliner Allee 44
  > extensive tenant fit-out completed, full occupancy achieved

In May 2014, around 1,400 sqm of office space was fitted out to modern standards and handed over to a leading German M&A communications consultancy firm.

Occupancy rate again increases

We again achieved good results in concluding new lease agreements for 6,585 sqm in financial year 2014 (previous year 11,454 sqm). The biggest individual contributions to our letting performance in 2014 came from the letting of the properties at "Büchsenstrasse 26", Stuttgart, "Hansaring 20", Cologne, and "Palaisplatz 3", Dresden. In these properties we were able to let 2,190 sqm (of which 1,880 sqm office space) and hand it over to the tenants in 2014.



Thanks to the successful letting performance, active management of lease agreements as well as purchases and sales to optimize the portfolio, the occupancy rate for the overall portfolio at 31 December 2014 rose to 95%, from 93% at the end of the previous year. This level was achieved even though "Gutleutstrasse 26", Frankfurt am Main, accounting for around 2.5% of the total space of our portfolio, is currently empty due to ongoing conversion work. Once the property is completed in 2015 we expect it to be gradually let out, and fully occupied by the end of the year.

Furthermore, we were able to extend lease agreements for approximately 25,079 sqm (previous year 7,430 sqm) often on significantly better terms. The most important extension of an existing lease agreement in economic terms concerns an office space of around 7,650 sqm in the property at "Weyerstrasse 79-83" in Cologne. In addition to this property, existing lease agreements were extended with other sitting tenants for rental spaces in the 800 – 2,000 sqm range, mainly in the locations Dresden, Düsseldorf and Cologne.

The decrease in new lease agreements compared with the previous year can be explained by the lower level of vacant properties available for reletting. The substantial rise in lease agreements extended is attributable to our active management of lease agreements, the high quality standard of the properties and professional tenant care. The high take-up level in 2014 produced a contractually secured rental income of around EUR 16,140 thousand over the full term of these lease agreements, with an average weighted term of 4.3 years and an effective rental rate of EUR 10.64 per sqm. The average remaining term of all existing fixed-term lease agreements is 3.9 years, or 3.8 years including open-end lease agreements (previous year 3.8 years), with an average rent across the portfolio of approximately EUR 11.77 (previous year 11.58) per sqm for all types of use (office, retail, residential, archive).

Dresden | Kramergasse 2/4

ECONOMIC REPORT

Because only a small amount of office space is now due for letting and storage space accounts for a significant portion of vacancies, we expect the occupancy rate to develop more slowly in the financial year in progress. It is our aim to achieve an occupancy rate of 96% by the end of 2015; taking account of normal fluctuation, this would represent full occupancy.

We consider our current task to involve letting the remaining space and maintaining a high occupancy rate through active management of the lease agreements. We also aim to improve the quality of our properties further, increase tenant satisfaction and realize the rental income potential.

	Rental space as of 31.12.2013	Rental space as of 31.12.2014	Occupancy rate as of 31.12.2013	Occupancy rate as of 31.12.2014
	sqm	sqm	in %	in %
Berlin	19.950	20.600	98	98
Dresden	33.200	33.200	94	99
Dusseldorf**	15.350	13.550	81	96
Frankfurt am Main	3.450	3.600	100	0
Hanover	6.200	6.200	100	100
Cologne	33.300	33.250	95	96
Mainz**	5.450	-	78	-
Munich	3.400	3.400	100	100
Stuttgart	23.850	23.700	90	94
TOTAL	144.150	**137.500**	93	**95**

Based on portfolio at the respective reporting date

**Sale 2014

Rental revenue overview

Rental income developed since 2011 as follows
(stuctured in A- and B-Cities)

All figures in EUR '000	2011	2012	2013	2014
Luisenstrasse 46	646	671	666	679
Potsdamer Strasse 58	870	818	926	887
Rankestrasse 21 / Lietzenburger Strasse 44, 46*	-	-	437	1.769
BERLIN	**1.516**	**1.489**	**2.029**	**3.335**
Berliner Allee 42	338	328	327	392
Berliner Allee 44	149	285	326	435
Berliner Allee 48	307	311	347	328
Steinstrasse 27	522	566	587	597
DUSSELDORF	**1.316**	**1.490**	**1.587**	**1.752**
Gutleutstrasse 26**	762	794	1.100	0
FRANKFURT A. M.	**762**	**794**	**1.100**	**0**
Ebertplatz 1	445	469	512	587
Gustav-Heinemann-Ufer 54	875	1.301	1.426	1.219
Hansaring 20	320	245	173	158
Konrad-Adenauer-Ufer 41-45	705	994	1.119	1.117
Neumarkt 49	498	537	581	583
Weyerstrasse 79-83	933	974	983	994
COLOGNE	**3.776**	**4.520**	**4.794**	**4.658**
Lessingstrasse 14	525	564	588	604
MUNICH	**525**	**564**	**588**	**604**
Böblinger Str. 8 / Arminstr. 15	264	264	243	266
Tübinger Strasse 31 + 33	576	175	306	633
Büchsenstrasse 26	440	804	1.377	1.420
Büchsenstrasse 28	67	74	243	306
Heustrasse 1, Kienestrasse 33	212	448	463	519
Hospitalstrasse 8	98	267	274	274
Hospitalstrasse 10	47	48	71	78
Quartier Büchsenstrasse	864	1.641	2.428	2.597
STUTTGART	**1.704**	**2.080**	**2.977**	**3.496**
Total "A cities"	**9.599**	**10.937**	**13.075**	**13.845**
Other properties / B-Cities	2.563	3.928	4.268	4.305
Properties sold until 2014	2.724	1.155	896	246
TOTAL	**14.886**	**16.020**	**18.239**	**18.396**

* Rent 2013 for 3 months, purchased 30 Sept 2013,

** Rent 2013 Incl. EUR 306 thousand compensation payment December 2013, since January 2014 in revitalization

The property at Rankestrasse 21 / Lietzenburger Strasse 44, 46 was only acquired in the course of 2013. Rental revenues for 2013 are therefore only shown pro rata. Rental revenues for Berliner Allee 44 in Düsseldorf were significantly increased in recent years through the letting of vacant space. Quartier Büchsenstrasse is now almost fully let following the completion of the extensive renovation work.

ECONOMIC REPORT

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Key figures and financial performance indicators

All figures in EUR '000	2013	Outlook for 2014	2014	Change, 2014 to 2013	Change, 2014 to 2014 forecast
Rental revenues	18.239	Slight rise	18.396	157	No change
FFO (after tax)	5.002	Slight rise	6.713	1.711	Sharper rise than expected
Consolidated earnings before tax (EBT)	9.808	Approx. 8,000	10.262	454	Sharper rise than expected
Cash flow from operating activities	9.038	Over 10,000	10.837	1.799	No change
Equity ratio	48 %	Slight rise	49%	1%	No change
Loan-to-Value (LTV)	50 %	Slight fall	47%	-3%	No change
Net Asset Value (NAV)	162.165	None	168.573	6.408	Not applicable

Rental revenues rose slightly in 2014 thanks to the higher occupancy rate and the newly acquired property at Rankestrasse/Lietzenburger Strasse in Berlin, despite the loss of rental income from the properties sold and the property undergoing conversion at Gutleutstrasse 26 in Frankfurt. This development is moreover in line with the expected, forecast figure.

The key ratio of funds from operations (FFO), from which valuation effects have been stripped out, rose more sharply than expected thanks to cost savings and the improvement in "Other income" (which includes warranty payments). FFO is an indicator of the sustainable operating performance of POLIS.
In detail, FFO comprises the following:

All figures in EUR '000	2014	2013
Rental income		18.239
Renovation and maintenance expenses	-2.418	-2.615
Property management expenses	-1.430	-968
Other income	1.281	375
Other expense	-243	-790
Administrative expenses	-3.355	-3.506
Investment income	197	144
Interest income		34
Interest expense	-5.725	-5.695
FFO (before tax)	**6.731**	**5.218**
Current income taxes	**-18**	**-216**
FFO (after tax)	**6.713**	**5.002**
FFO per share (in EUR)	**0,61**	**0,45**

FFO and the unforeseen valuation gains from interest rate derivatives and investment properties led to higher EBT. As anticipated, cash flow from operating activities rose to more than EUR 10,000 thousand and the equity ratio increased thanks to the profits achieved.

By contrast, LTV fell slightly as a result of debt reduction in the form of ongoing redemption payments and early repayments from self-generated funds, at a time when investment property values remained stable.

FINANCIAL PERFORMANCE

Thanks to the good letting result, rental income increased to EUR 18,396 thousand (previous year EUR 18,239 thousand); this was 1% up on the prior-year level. With many rental spaces newly let and handed over, renovation and maintenance expenses fell by 7.5% to EUR 2,418 thousand. Property management expenses rose from EUR 968 thousand to EUR 1,430 thousand because of the high reclassified property management costs, even though the letting expenses and vacancy costs declined. Net rental income thus eased back by around 1% to EUR 14,548 thousand (previous year EUR 14,656 thousand). The valuation of the investment properties led to a net increase of EUR 2,911 thousand in the valuation of the overall portfolio. Combined with the result from the sale of properties amounting to EUR -400 thousand, the prior-year result of EUR 2,319 thousand was exceeded. The increase in value stems mainly from the individual valuations of the properties at "Rankestrasse 21, Lietzenburger Strase 44-46" in Berlin (EUR 770 thousand), at "Quartier Büchsenstrasse" (EUR 598 thousand) in Stuttgart and at "Altmarkt 10/Kramergasse 2" (EUR 444 thousand) in Dresden. The valuation result was reduced mainly by the devaluation of the property at "Gutleutstrasse 26" in Frankfurt (EUR -596 thousand) due to the departure of the sole tenant and the conversion work currently in progress to turn it into a multi-tenant property, and by the devaluation of the property at "Böblinger Str. 8" in Stuttgart (EUR -409 thousand).

Administrative expenses came to EUR 3,355 thousand in 2014, a decrease of around 4.3% on the previous year (EUR 3,506 thousand) that was attributable, among other factors, to the reclassification of property management costs as property management expenses. A detailed list is provided in the notes to the consolidated financial statements, under Section 4.8 "Administrative expenses".
Due to the higher volume of loans raised in the first half of the year, interest expense of EUR 5,725 thousand was slightly above the previous year's level (EUR 5,695 thousand) despite the early repayments made mid-way through the year and debt clearances from the sale of properties. The reason is that the financing of the property at "Rankestrasse 21, Lietzenburger Strasse 44-46" in Berlin purchased in the fourth quarter of 2013 became fully effective in 2014 and the credit volume was not reduced again until 30 June 2014 through early repayments and disposals. The consequence is that the financial and investment result for financial year 2014 remained stable at EUR -5,500 thousand (previous year EUR -5,517 thousand). The market value of cash flow hedges for the current year led to a drop in fair values of EUR 3,713 thousand. The market value changes for the effective portion of the interest rate hedge (EUR -4,733 thousand) that result mainly from the lower market interest rates are reported under "Other income", less attributable deferred taxes (EUR 749 thousand). The market value changes resulting from the non-effective portion of the hedge between derivatives and underlying transaction (EUR +1,020 thousand) are reflected in the income statement.
The weighted average interest rate for debt financing remained stable at 3.6% as a result of market interest rate movements and the reorganization of interest rate hedges.

The consolidated financial statements report a EUR 454 thousand year-on-year rise in consolidated earnings to EUR 10,262 thousand (previous year EUR 9,808 thousand), up approximately 5% on the previous year. The key operating ratio of funds from operations showed a marked improvement from EUR 5,002 thousand in the previous year to EUR 6,713 thousand mainly thanks to the substantial improvement in other income and expenses, as well as the reduced renovation and maintenance expenses.

FINANCIAL POSITION

Cashflows

All figures in EUR '000	2014	2013
Cash flow from operating activities	10.837	9.038
Cash flow from investing activities	5.281	-23.196
Cash flow from financing activities	-13.710	12.216
Cash in banks at the end of the period	8.778	6.370

Cash flow from operating activities rose mainly as a result of lower renovation and maintenance expenses and administrative costs, as well as an improvement in "Other income"" (which was influenced by a warranty payment, among other factors). Proceeds from and payments for investments were in respect of the sale of properties and the modernization work carried out. The cash flow from financing activities mainly represents repayments of net borrowings from the sale of properties, early repayments of short-term loans mid-way through the year as well as redemption payments.

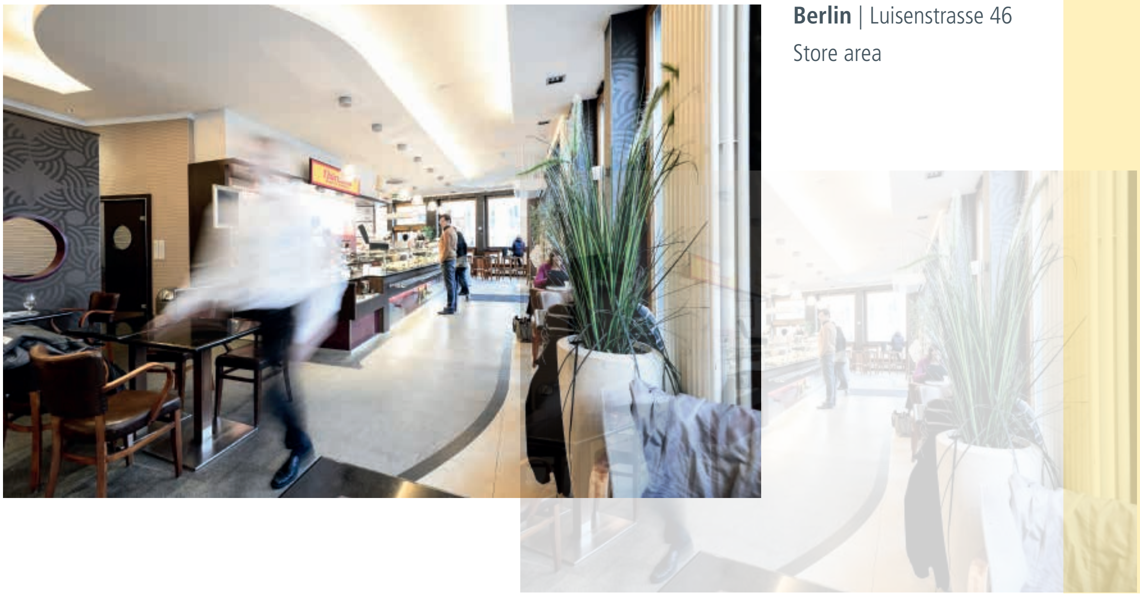
High equity ratio, low loan-to-value ratio

With its equity ratio of 49%, POLIS remains on a sound financial footing and continues to have sufficient flexibility for raising debt capital on attractive terms.

The loan-to-value ratio (that is, the ratio between liabilities to banks and the market value of the properties) fell by three percentage points to around 47% at 31 December 2014 as a result of ongoing redemption payments and an early repayment mid-way through the year. The strategic 60% level that we are seeking could be achieved by obtaining new financing, but should still not be exceeded in the future in order to keep leverage permanently low. The following overview shows the maturities of bank loans:

Credit volume by maturities

Credit volume in EUR '000	17 %	3 %	14 %	36 %	25 %	5 %
Volume	25.417	4.320	20.790	53.137	37.342	6.650
Year	2015	2016	2018	2020	2021	2023



Berlin | Luisenstrasse 46
Store area

Low-risk maturities structure of liabilities to banks

The weighted average remaining term of the bank loans at 31 December 2014 was 5.1 years (previous year 5.7 years). Offers have already been received from various banks for the early extension of the bank loans due in 2015, so no risk exists here.
At 31 December 2014, 88% of the interest-bearing liabilities to banks were hedged. The average term of interest rate hedges is 4.7 years.

Some loan agreements contain typical clauses requiring that certain financial ratios be maintained with respect to individual properties or the loan portfolio. As a result of the high occupancy rates in all loan portfolios and the good market values of the properties, all financial covenants required by the banks are currently met. From the current perspective this will remain the case in 2015.

NET ASSETS

Investments in the investment properties kept total assets stable at around EUR 334.1 million in financial year 2014 (previous year approximately EUR 333.9 million), despite the sale of some investment properties.

Non-current assets consist mainly of the 23 investment properties and account for around 94% of total assets, in line with the business model.

Asset and capital structure

All figures in EUR '000	31.12.2014	31.12.2013
Non-current assets	318.989	318.275
Current assets	15.086	15.609
Equity	164.832	159.523
Total assets	334.075	333.884

ECONOMIC REPORT

Investments in investment properties

The investments of around EUR 4.2 million in the individual investment properties are reported in detail in the notes to the consolidated financial statements, under 3.1 "Investment properties". In 2015, the calculated construction costs in the order of EUR 3.1 million for the completion of the conversion work on the property at "Gutleutstrasse" in Frankfurt am Main will be the biggest source of investment costs.

Valuation of the properties

In financial year 2014, FERI EuroRating Services AG (hereinafter referred to as "FERI") was asked to determine the market values of around one-quarter of the portfolio in each calendar quarter, and to document these market values in the form of reports. This means that the market value of each property is determined by an independent, external valuer once per year. Properties not valued by FERI at the end of a given quarter are subject to an internal valuation. However, properties that have undergone fundamental changes are valued externally by FERI in the next quarter. FERI valued six investment properties in the POLIS property portfolio at 31 December 2014. For details on the valuation method and the assumptions, please refer to the information given in Section 3.1 of the notes to the consolidated financial statements.

The fair values of the investment properties, including properties held for sale, came to EUR 313,090 thousand at the end of 2014 (previous year EUR 316,060 thousand). The recognized market values of the individual properties are set forth in the notes to the consolidated financial statements, in Section 3.1. The FERI rating is published in the portfolio overview on the Internet (www.polis.de) and in the Annual Report.

Net Asset Value

With 11,051,000 shares in total, the net asset value per share at 31 December 2014 amounted to EUR 15.25 (previous year EUR 14.67). The figure including the effect of deferred taxes is known as the net net asset value (NNAV), and was EUR 14.93 per share at 31 December 2014 (previous year 14.44).

The following table shows the development in NAV:

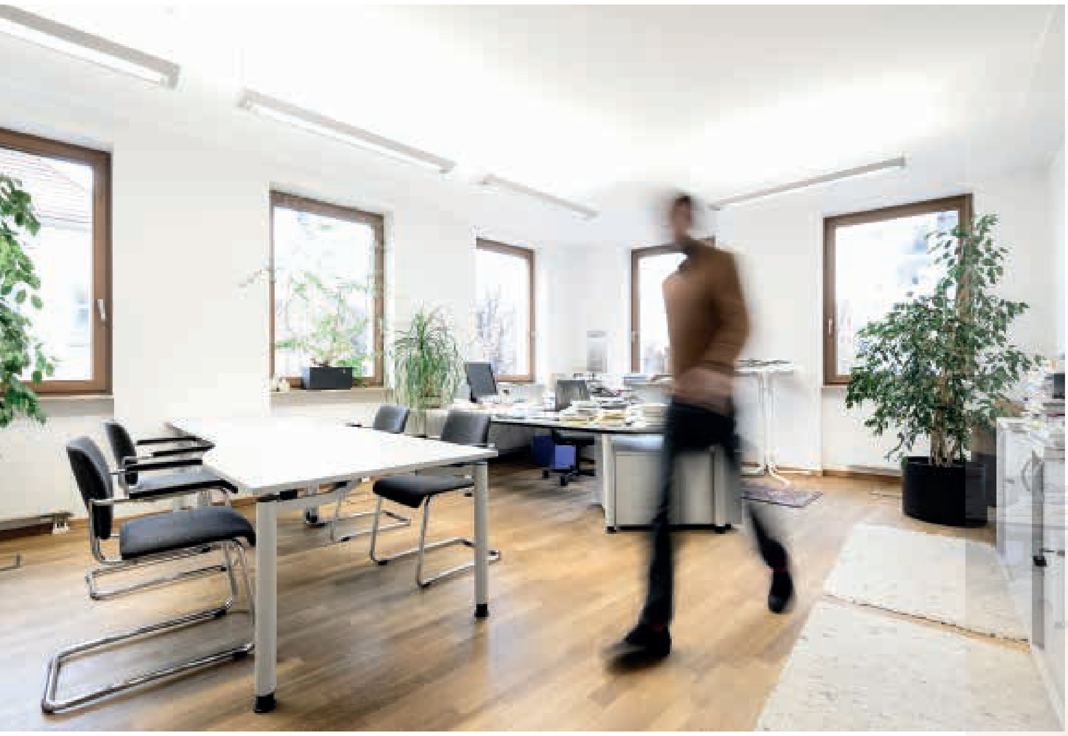
All figures in EUR '000	2014	2013	2012	2011
Carrying amount of the properties	313.090	316.060	291.040	289.130
Carrying amount of interests	4.594	3.772	3.772	3.772
Other assets less other equity and liabilities	-1.166	-1.215	-3.854	-7.673
Liabilities to banks	-147.945	-156.452	-139.252	-135.120
NET ASSET VALUE (NAV)	168.573	162.165	151.706	150.109
Deferred taxes	-3.741	-2.642	-1.054	-779
NNAV	164.832	159.523	150.652	149.330
NAV per share	15,25	14,67	13,73	13,58

Concluding remarks concerning the financial performance, financial position and net assets

Thanks to the positive net rental income and the good operating cash flow, the financial performance and financial position of POLIS remained positive. The increase in the occupancy rate and the investments in the buildings paved the way for improved future income from business operations. A positive cash flow, an equity ratio of approximately 49% (loan-to-value ratio approximately 47%) and further financial flexibility represent a comfortable financial situation conducive to taking advantage of investment opportunities.

Overall assessment of the business performance

As a result of the successes in modernizing and letting our properties in the past, in conjunction with the addition to the portfolio in 2013, the past financial year yielded the expected improvement in the key operating ratios. The increased occupancy rate prompted a rise in rental income, while vacancy costs fell; the net rental income and operating cash flow also increased. After adjustment for valuation effects, funds from operations (FFO) rose compared with the previous year, as anticipated in our forecast. The overall positive valuation result confirms that the high modernization investments in the past have led to concrete increases in value. We are optimistic that the conversion of the property at "Gutleutstrasse" in Frankfurt into a multi-tenant property will likewise contribute to the good valuation results. A high proportion of extensions to existing lease agreements is very important for a stable pattern to our income stream. The optimization of our portfolio and the process of concentrating on our main locations continued with the sale of two smaller investment properties and our withdrawal from the



Berlin | Luisenstrasse 46

ECONOMIC REPORT

Mainz location. On the basis of the liquidity and existing financial flexibility (including from unencumbered investment properties), there are sufficient financial resources in place to finance new acquisitions, and we intend to make extensive use of these in financial year 2015.
By way of the result that serves as the basis for the payment of dividends according to German accounting standards (HGB – German Commercial Code), POLIS Immobilien AG generated a net income of EUR 2.7 million in the year under review. The positive HGB result in 2014 is partly attributable to a write-up of previously written-down valuations for several investment properties. Because HGB net income is expected to be only marginally positive next year due to increased renovation and maintenance expenses driven by our desire to consistently improve the condition of our properties, along with the quite considerable investment spending, the Board of Management has allocated a portion of EUR 1.3 million from net income to retained earnings and proposes to carry forward the remaining profit, also EUR 1.3 million, to new account.

Non-financial performance indicators

The main non-financial performance indicators at POLIS Immobilien AG are:

- **Tenant satisfaction:** We conduct regular tenant surveys to gauge tenant satisfaction. These give us direct feedback away from the context of our daily business dealings. The information is evaluated and the findings are used to nurture good relations with tenants. The result of the 2014 survey was 2.15 (previous year 2.29) using a rating scale of 1 (very good) to 5 (poor).

- **Employee satisfaction:** We hold performance reviews on a regular basis (at least once a year) to discuss with each employee their duties and work situations. We also discuss opportunities for personnel development and advancement.

- **TSustainability:** We always maintain a focus on sustainability in our activities. Construction work is thus designed to preserve value and protect the environment. We are especially eager to implement our corporate strategy and achieve organic, low-risk growth in a sustainable way. In 2014 the extensive refurbishment project on "Quartier Büchsenstrasse" was awarded a silver certificate by the German Sustainable Building Council.

- **Transparency:** We attach particular importance to high transparency. POLIS has already received several awards for its transparency. We disclose all relevant data in our reports and on our website. Furthermore, we publish a quantified risk report, which indicates all risks, irrespective of whether they are reflected on the statement of financial position.

REPORT ON POST-BALANCE SHEET DATE EVENTS

In February 2015 POLIS Immobilien AG issued a secured promissory note loan for EUR 10 million to redeem bank liabilities. No other significant events occurred between the end of financial year 2014 and the editorial deadline for this management report.

Stuttgart | Tübinger Strasse 33 (at the right)
Office building

RISK REPORT

RISK MANAGEMENT SYSTEM

POLIS fundamentally includes all group companies and activities in the risk management system, including financial participations with an interest upward of 10% where we have taken charge of general or asset management. We record all identifiable risks and do not ignore any known risk areas. Opportunities are not recorded. POLIS follows the COSO standard 1. We have documented the framework conditions for risk management in the form of a guideline. Risks are accordingly evaluated and classified according to probability and loss amount. For each risk, actions to reduce it are specified; the early warning indicators are updated regularly and discussed with the persons responsible. Information about risks is systematically and transparently recorded, processed and presented to the Board of Management, which also discusses the current development of risks at its meetings every four weeks or at the fortnightly meetings of the management team. Losses occurring are reported directly and independently of the regular reporting channels. We have also formulated binding rules for recording, managing, communicating and controlling processes in the form of an organization manual. Each employee is required to be aware of the relevant risks and to act accordingly within the scope of their responsibilities. Compliance with all guidelines is examined internally by our auditing department

Monitoring activities are carried out on a strategic as well as an operational level. The timely execution of risk management measures approved by the persons responsible is monitored. The implementation of risk management measures is up to the employees responsible and is monitored by the Board of Management. Financial risks are analysed by simulating the impact on cash flow of e.g. interest rate risks, rollover risks and vacancy risks.

Business-related risks are identified e.g. by regularly reviewing the creditworthiness of counterparties, the condition of properties and the status of construction work.
The Supervisory Board is involved in the internal control system by way of process-independent reviews and regular reports by the Board of Management.

Risk strategy

- Selective acquisition and sale of individual properties for the purpose of improving the structure of the portfolio.
- Intensive examination of purchases by experienced personnel, architects and specialist engineers reduces the risks when acquiring new investment properties.
- Rigorous location requirements and our multi-tenant strategy reduce the risk of rent defaults and the likelihood of important leases coming up for renewal at the same time.
- Active portfolio management – rapid and intensive marketing of vacant spaces reduces the risk of vacancies.
- Central monitoring (assessment and monitoring of creditworthiness, reminder procedures) for the early detection of credit risks among tenants and contracting parties
- Conservative financing strategy with an equity ratio of at least 40% that reduces the influence of variations in the interest rate. Interest rate risks for loans are to be hedged against routinely and predominantly by stipulating fixed interest rates or employing derivative financial instruments. The scope of interest rate hedges shall depend on the current interest rates on the money and capital market and be agreed with the Supervisory Board.

Description of the key characteristics of the internal control and risk management system with respect to the group accounting process

In order to ensure the effectiveness and regularity of the accounting process, the internal control system of POLIS encompasses all principles, processes and measures as integrated components of the risk management system. The internal control system is uniform and centralized, and is the responsibility of the Chief Financial Officer in his capacity as head of the finances and accounting, planning, controlling, IT and risk management areas.

Additionally, each month the Supervisory Board receives a full report on business operations and quarterly financial statements are published. The review of the consolidated financial statements by the group auditor represents the essential process-independent monitoring function with respect to the accounting process.

In the separate financial statements of the POLIS companies, the processes relevant to accounting are recorded with the help of Navision's ERP software. Also, all processes required for preparing the consolidated financial statements such as consolidation and analysis are generated by the reporting and analysis functions provided by the Navision software. Specific risks related to group accounting can arise from complex business transactions or from transactions that are not processed in accordance with established routines. Furthermore, the employees have a degree of discretion in the recognition and measurement of assets and liabilities. These risks are limited by obtaining external valuations for both the properties and the derivatives. Furthermore, the internal controlling department carries out a monthly analysis of the current business figures.

The measures implemented by the Board of Management under the internal control system with respect to the group accounting process ensure that all transactions are recorded in a comprehensive and timely manner in accordance with the statutory requirements and the Company's Articles of Association. The control activities also comprise the routine analysis of matters. Furthermore, measures such as the separation of decision-making and executive functions, access and authorization functions in the IT system, and manual control procedures (such as the dual control principle and independent random checks for compliance and correct recording) ensure the effectiveness of the internal control system. Existing guidelines were updated and expanded in 2014, and new guidelines were issued.

PRESENTATION AND QUANTIFICATION OF INDIVIDUAL RISKS

All risk quantifications indicated here reflect the net position; in other words, the value put on the risk is stated after taking account of all implemented and planned risk measures.

Financial risks

(i) POLIS is exposed in particular to interest rate and liquidity risks that are presented in general terms below. Regarding risk management of financial instruments, we refer to the explanations in Section 6.3 of the notes to the consolidated financial statements. Interest rate risks are to be hedged to a variable extent of 50% to 90% and with maturities ranging from three to seven years, depending on the specific market interest rate environment. The interest rate risk at 31 December 2014, for a short-term rate rise of 100 bps, was up to EUR 177 thousand p.a. However we do not expect the risk to materialize in 2015 based on the money market situation and forecasts. In view of the low interest rates on the money and capital market, there is a slight risk of a further fall in interest rates. Assuming a change of 0.08%, there would fundamentally be a further risk of nominally up to EUR 400 thousand from the change in value of the derivatives. Because the probability of a slight fall is estimated at no more than 40%, we believe there is a risk of EUR 160 thousand.

(ii) Debt finance was good to excellent for POLIS in 2014 thanks to the strategy of keeping leverage permanently low at no more than 60%. There were sufficient numbers of financing partners in the market, offering substantially better terms of financing than in the previous year. Following the confirmation of an investment grade rating, access to debt capital is likely to become easier and credit margins will also come down a little further.

(iii) With an equity ratio of around 49% and cash in banks of approximately EUR 8.8 million available, as well as a positive, secure cash flow from operating activities, the modernization investments and maintenance measures of some EUR 10 million planned for 2015 will not put a squeeze on finances, especially as the investments in converting the property at "Gutleutstrasse", Frankfurt, could be financed with the currently unencumbered property serving as collateral. In addition, further unencumbered properties are available, thus offering adequate financial flexibility.

(iv) The loans are subject to the typical covenants: debt service coverage ratios of between 110% and 120%, interest service coverage ratios of between 140% and 149%, and loan-to-value ratios of between 65% and 80% at the level of the individual properties or between 70% and 80% at portfolio level. For a detailed presentation of our debt positions (maturities structure and fixed interest periods) we refer to Sections 3.9 and 6.3 "Liabilities to banks" in the notes to the consolidated financial statements. Given the current situation on the money and capital market, we believe that the shareholder structure of POLIS, with its financially strong institutional investors, represents an additional stability factor.

The principles and goals of financial risk and capital management are explained in Section 6.3 in the notes to the consolidated financial statements.

Business-related risks

(i) Risks associated with the market for office buildings

The German market for office properties is particularly influenced by the overall economic environment and the investment decisions of the market participants. The market for office buildings depends on numerous factors, some of which are interdependent, and can therefore experience unpredictable fluctuations. Factors that influence the market include

- Overall economic growth, the level of interest rates, and the expectations of companies regarding future economic trends;
- The supply and demand for office properties in individual locations as well as factors specific to local markets;
- The attractiveness of Germany as a location relative to other countries and global market, as well as the statutory framework and fiscal environment.

POLIS cannot influence the factors determining the market for office buildings. As a result of its focus on office properties, POLIS cannot diversify risks via other segments within the property market. Based on the anticipated conditions, the development in 2015 will be characterized by a further rise in demand for office space. We believe that the homogeneous and solid portfolio of POLIS is not exposed to serious risks.

(ii) Risks associated with letting

The properties held by the Company exhibited an average vacancy rate of 5% based on the rental space at 31 December 2014. As a multi-tenant provider, we equate an occupancy rate of 95% with full occupancy, and as such we have achieved this. On average, the lease agreements concluded by POLIS stipulate medium-length terms of 3.9 years, so that lease agreements are regularly due for extension. In 2015, around 6,930 sqm of office space will be available for letting. The tenants of POLIS come from a wide range of different industries. Bearing this in mind, we assess the letting risks from any follow-on leases and rent defaults at approximately EUR 30 thousand in 2015.

(iii) Risks associated with construction costs

POLIS invests in properties requiring varying degrees of modernization. The strategy of actively managing the portfolio includes modernizations as well as – to a lesser extent – project developments. These may be associated with risks such as cost overruns, delays and defects in the construction work.
In order to identify and control risks early on in the course of planning and executing modernization work, we have commissioned external project management organizations and architects to manage the majority of such projects. Projects are managed by means of intensive project controlling along with regular project meetings and project reports. In financial year 2015, we will invest approximately EUR 10 million in our investment properties. We estimate the construction costs risk associated with the planned construction work at up to EUR 1.4 million.

(iv) Risks associated with revaluations

The properties of POLIS are reported in the consolidated statement of financial position at their fair value pursuant to IAS 40. The valuation of properties is based on a large number of factors that also include subjective assessments, which may change at any time. The valuation of properties therefore entails a wide range of uncertainties. No objectively accurate valuation of properties is possible. Also an erroneous assessment of or changes in the factors underlying the valuation may result in different values in future. For 2015, we put the overall risk from incorrect valuations at a maximum of EUR 1.5 million.

IT risks

The reliability and security of the IT system might be insufficient to withstand disruptions or failures, resulting in interruptions in business activities and thus increased costs. To secure our IT-based business processes, we employ the services of an external IT service provider. The information technologies used are continuously reviewed, developed and adjusted. Continuous backups (kept externally at banks) guard against the loss of data. We rate the cost risk for failures and the recovery of systems and data at EUR 25 thousand gross, with a very low probability of 1%, in other words less than EUR 1 thousand.

Staff risks

With our asset and property management team, we are in a position to perform all property-related tasks. We use highly trained specialists in all areas in order to achieve our corporate objectives. Therefore, our commercial success depends crucially on the management team and our employees. In order to promote the integration of the employees into the Company we offer attractive, well-equipped workplaces and performance-based compensation packages, additional welfare measures, supplementary arrangements to promote health as well as the prospect of further training and development. The interaction between employees and managers is characterized by trust and the awareness that the corporate objectives can only be achieved by

RISK REPORT

Berlin | Rankestrasse 21
Reception

working together. Taking account of the low probability we calculate the risk from needing to fill vacant posts, which might entail extra costs due to time constraints, at EUR 30 thousand for 2015.

Insurance policies

POLIS has procured adequate insurance coverage with respect to the risks of its business. The properties are insured against material damage including loss of rent. The required third-party liability cover has been obtained. The insurance cover was improved further and the costs were reduced thanks to a tendering process in 2014.

Risk assessment

The materialization of the risks described above can have negative effects on the business activities and profits of POLIS. The Board of Management of POLIS continuously analyses these risks. The strategy of diversifying risks by investing in high-quality buildings that are suitable for use by third parties and are situated in attractive locations is implemented by portfolio management. The risk of rent defaults is reduced by controlling the tenant mix, monitoring the tenants' financial standing and actively supporting the tenants. The degree to which the operational and strategic objectives are reached is continuously supervised by a comprehensive risk management system. The forecast period for major risks extends beyond financial year 2015. With its regular and up-to-date reporting system, the Board of Management can react at short notice and rapidly take measures in the case of deviations from the plan.

Even the cumulative occurrence of all the above individual risks could be covered by the planned consolidated earnings for 2015 without eroding the available equity capital.

The Board of Management of POLIS therefore believes there are no risks discernible from past or future developments that would threaten the existence of the Company. We are aware of the economic and financial risks associated with the financial crisis, as well as their possible after-effects; however, we believe that the risks we have identified are manageable. Adequate precautions have been taken to guard against any risks that are discernible.

On 3 December 2014 the "A-" rating of POLIS Immobilien AG was confirmed by FERI EuroRating Services AG and supplemented by a positive outlook. This very good investment-grade rating reflects not only the high financial stability and quality of "properties" as the key assets, but also the quality of the internal structures and procedures evaluated, including risk management.

Summary of individual risks

	TEUR
Financial risks	
Interest rate risk	160
Business-related risks	
Risks associated with letting	30
Risks associated with construction costs	1.400
Risks associated with revaluations	1.500
IT risks	1
Staff risks	30

REPORT ON EXPECTED DEVELOPMENTS

DEVELOPMENT OF THE OVERALL ECONOMY AND THE OFFICE PROPERTY MARKETS

The office markets stabilized at a high level in 2014. Despite new construction activity, the vacancy rate in the office market came down. Because further economic growth is forecast for the current year, we expect this pattern to continue in 2014.

MAJOR OPPORTUNITIES FOR POLIS GROUP

Thanks to its high level of take-up in the past three years, POLIS has established the basis for stabilizing and improving the key earnings ratios for 2015 and beyond. With our quality-focused business model and our homogeneous portfolio, the take-up level should remain good in 2015. Thanks to the high occupancy rates now achieved and the further improvement forthcoming in 2015 once the property at "Gutleutstrasse 26" in Frankfurt is occupied after its completion, both new lease agreements and further increases in rents should be achievable, in the latter case mainly from lease agreements extended at market rates. Along with striving to increase its income, POLIS constantly seeks to reduce costs without diminishing the quality of its work, as a means of improving its returns.

Our properties and rental spaces offer good value for money and meet the requirements for modern office space. Moreover, our excellent capital resources enable us to take advantage of acquisition opportunities. Overall, our concept based on office buildings in attractive locations in the most important German business locations allows us to take advantage of opportunities as they arise.

We consider ourselves active portfolio managers and specialists in the modernization of office buildings, and can address all key areas of the property management value chain with our in-house expertise. Through our experienced asset management team, we can identify attractive purchase opportunities ourselves and tap the potential for added value through optimization and/or letting. This enables us to take advantage of opportunities from within our own property portfolio, especially in challenging times.

OUTLOOK FOR 2015

Based on the risks and opportunities presented above, and in anticipation of a positive development in the office market along with continuing low interest rates, we expect the key operating ratios to show a further improvement thanks to increased occupancy rates.

The refurbishment and conversion of the property at "Gutleutstrasse 26" in Frankfurt will diminish earnings during the construction phase through the loss of rental revenues and the construction costs incurred. Notwithstanding that, we intend to increase maintenance spending on our properties in 2015 and also realize appropriate construction projects cost-effectively, possibly bringing forward work that is planned for further ahead. By the end of 2015, we would like to stabilize the occupancy rate at 96% of all rental space.

Rental revenues will increase only marginally in 2015 based on indicative rent levels and the fact that the property at "Gutleutstrasse 26" in Frankfurt is unoccupied while undergoing modernization.

FFO will be around EUR 2.8 million lower than in 2014 due to increased renovation and maintenance expenses. EBT – disregarding further valuation effects from interest rate swaps – is consequently expected to be just above EUR 7.0 million in 2015.

For the above reasons, cash flow from operating activities will be down on the previous year, at a figure just above EUR 9.0 million.

The equity ratio will edge up further and LTV will continue to fall slightly as a result of redemption payments coupled with the appreciating values of the properties. The net asset value (NAV) will rise to just above EUR 175 million. Depending on how the market for derivatives develops, this figure may fluctuate by up to EUR 2 million.

We base these forecasts on an inflation rate of 1%, maintenance costs of EUR 2.79/sqm/month, vacancy costs of EUR 1.75/sqm/month and a loss of rent risk of 1%.

When considering these forecast figures it should nevertheless be noted that the valuation trends for the investment properties and derivatives are subject to considerable uncertainties and therefore cannot be determined with any degree of reliability. Because the valuation results have a major impact on the IFRS net income, forecasting the net income involves considerable uncertainty.

REPORT ON EXPECTED DEVELOPMENTS

Furthermore, we aim to generate growth by acquiring new investment properties and expanding the property portfolio with further purchases. We may also consider financing them with capital market products alongside or as an alternative to traditional forms of financing. We will maintain a conservative financing structure and a maximum loan-to-value ratio of 60%. These measures could additionally improve the above key ratios.

Independently of the uncertainties presented here, actual results can deviate substantially from our expectations if one of the uncertainties mentioned in the risk report or additional uncertainties materialize or if the assumptions underlying the statements turn out to be incorrect.

The good investment-grade rating of "A-" with a positive outlook will narrow the credit margins even further and also prove beneficial for accessing additional financing partners and sources.

Non-financial performance indicators

To assure tenant satisfaction, we also continue to conduct tenant surveys on a regular basis. The findings that these yield are used as the basis for specific measures to retain tenants. We therefore assume that tenant satisfaction will be maintained over the coming years. The measures we take to assure employee satisfaction include attractive workplaces and appropriately allocated tasks, continuous on-the-job training and personnel development reviews. The employees are also actively involved in the further development of POLIS. Furthermore, POLIS implements additional programmes to promote the health of its employees. Our low employee turnover rate is a sure sign of high employee satisfaction – and one that we aim to maintain as we move forward.

The sustainability of our activities is also confirmed by the awarding of another certificate to one of our construction projects by the DGNB. We will make further headway in that direction and apply the same principles in future projects, too.

POLIS Immobilien AG is endeavouring to move towards greater transparency in this Annual Report, too. Alongside presenting the business figures, it again contains a quantified risk report and further information. We will adhere to this concept. Our voluntary corporate rating with detailed rating report also serves as an important measure of transparency; this assessment of our Company, by an independent third party, gives our business partners an appraisal of more than simply the business figures.

Overall, POLIS will again achieve sound key earnings ratios in 2015. Earnings for 2015 will be lower than in 2014 because of the investments in "Gutleutstrasse 26" in Frankfurt and the scaled-up maintenance programme planned, bearing in mind that the prior-year figure was boosted to some degree by extraordinary income. However all investments will protect and improve the property values and overall result in the long term.

DEPENDENCY REPORT

Because Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (Mann Group, Karlsruhe) has held 69.8% of the shares of POLIS since 15 August 2013 (previously Mann Unternehmensbeteiligungen GmbH), POLIS is a dependent company of Mann Unternehmensbeteiligungen Holding GmbH & Co. KG within the meaning of Section 17 (1) and (2) of the German Stock Corporation Act (AktG). In fulfilment of the requirements of Section 312 of AktG, the Board of Management has therefore prepared a report on the relationships with affiliated companies (dependency report) for the period from 1 January 2014 to 31 December 2014.

No legal transactions with Mann Unternehmensbeteiligungen Holding GmbH & Co. KG or Mann Unternehmensbeteiligungen GmbH [or with the Mann Group] were carried out in financial year 2014. Legal transactions with affiliated companies were only carried out with the subsidiaries of POLIS Immobilien AG.

The concluding declaration of the Board of Management is as follows: "For each legal transaction mentioned in the report of the Board of Management on relationships with affiliated companies of POLIS Immobilien AG in the period from 1 January to 31 December 2014, our Company received appropriate consideration. This assessment is based on the circumstances known to us at the time at which the legal transactions were carried out. No measure was undertaken or omitted in the interests or at the instigation of the controlling company or of one of its affiliated companies that placed the Company at a disadvantage."

Dresden | Palaisplatz 3

REPORT ON THE TAKEOVER SITUATION PURSUANT TO SECTION 315 (4) OF HGB

Subscribed and authorized capital

The subscribed capital is divided into 11,051,000 individual shares with a calculated value of EUR 10.00 each. By resolution of the Annual General Meeting on 22 June 2012, the Board of Management is authorized subject to the approval of the Supervisory Board to increase the share capital by up to EUR 55,255,000.00 by 22 June 2017 through the issuance of up to 5,525,500 no-par value shares. The corresponding authorized capital within the meaning of Sections 202 et seq of AktG is governed by Section 4 (3) of the Articles of Association.

Shareholder structure

Since August 2013, the majority shareholder with approximately 69.8% of the shares in POLIS has been Mann Unternehmensbeteiligungen Holding GmbH & Co. KG (Mann Group). Prior to that, Mann Unternehmensbeteiligungen GmbH, which likewise belongs to the Mann Group, was the majority shareholder with the same interest. The support of such a financially strong major shareholder encourages us in the pursuit of our strategy. The Mann Group has consistently backed our strategy, and has been supporting our growth since before our initial public offering by investing substantial amounts of capital.

Overall, the Company is aware of the following direct and indirect interests in the capital that exceed 10% of voting rights:

a) **Direct interests** at 31 December 2014

- Mann Unternehmensbeteiligungen Holding GmbH & Co. KG , Karlsruhe: 69.8 %
- Bouwfonds Asset Management Deutschland GmbH, Berlin: 20.2 %

b) **Indirect interests** at 31 December 2014

The following entities hold indirect interests via Bouwfonds Asset Management Deutschland GmbH, Berlin:

- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Utrecht: Netherlands 20.2%
- Rabo Bouwfonds Holding N.V., Hoevelaken, Netherlands: 20.2%
- Rabo Vastgoedgroep Holding N.V., Hoevelaken, Netherlandse: 20,2 %
- Bouwfonds Investment Management B.V., Hoevelaken, Netherlands: 20,2 %

The following entities hold indirect interests via Mann Unternehmensbeteiligungen Holding GmbH & Co. KG, Karlsruhe:

- Mann Immobilien-Verwaltung AG, Karlsruhe, Deutschland: 69,8 %.
- Mann Unternehmensbeteiligungen GmbH, Karlsruhe, Germany 69,8 %.

The free float as defined by Deutsche Börse currently represents around 5% of the shares in POLIS.

Amendments to the Articles of Association and appointment of members of the Board of Management

The members of the Board of Management are appointed and dismissed in accordance with Sections 84 et seq of AktG. Under Section 8 of the Articles of Association, the Board of Management consists of one or more persons, and the number of members of the Board of Management is specified by the Supervisory Board. In accordance with Section 119 (1) No. 5 of AktG, the Annual General Meeting may pass resolutions on amendments to the Articles of Association. Amendments to the Articles of Association that pertain only to their wording may be carried out by the Supervisory Board pursuant to Section 179 (1) second sentence of AktG in conjunction with Section 18 (3) of the Articles of Association. The Annual General Meeting decides on resolutions to amend the Articles of Association pursuant to Section 133 of AktG in conjunction with Section 179 (2) of AktG in conjunction with Section 27 (1) of the Articles of Association by a simple majority of votes and a simple majority of the share capital that is represented during voting.

The compensation report summarizes the principles governing the compensation of the Board of Management and Supervisory Board of POLIS and details the level and structure of the compensation of the individual members of the Board of Management and Supervisory Board.


Café Luise
Café Luise
Thürmann
Bäckerei & Konditorei
Luisenstraße
Julius Meinl
Bestform Textilpflege

REPORT ON THE TAKEOVER SITUATION PURSUANT TO SECTION 315 (4) HGB

COMPENSATION REPORT

Compensation system of the Board of Management

The compensation of the Board of Management consists of a fixed component and a performance-related management bonus.

Fixed compensation: in addition to a fixed compensation paid in monthly instalments, the members of the Board of Management receive fringe and non-cash benefits in the form of company cars and subsidized health insurance contributions.

Variable compensation: each member of the Board of Management receives an annual management bonus of up to 50% of the agreed fixed compensation, which is determined on the basis of the degree of success in achieving corporate objectives and individual goals as specified by the Supervisory Board at the start of the financial year in question. The objectives are based partly on the attainment of the planned consolidated earnings as well as on other qualitative criteria. If the requirements for such an entitlement are not met, at its due discretion the Supervisory Board may nevertheless, in consideration of the net profit as well as the personal contribution of the Board of Management members to net profit, other achievements and the Company's economic situation, grant the members of the Board of Management a performance-related management bonus of up to EUR 30 thousand each.

Compensation upon leaving the Board of Management: in the event that a member of the Board of Management ceases employment prematurely, any settlement is limited to twice the annual compensation, but no more than the compensation for the remaining term of the contract of employment. The employment contracts with the members of the Board of Management of POLIS do not contain any special provisions in the event of a takeover of the Company. Retirement or survivor's pensions are not provided.

The members of the Board of Management were:

- **Dr. Alan Cadmus**, Sprecher des Vorstandes, Berlin
- **Dr. Michael Piontek**, Finanzvorstand, Berlin

DIRECTORS' DEALINGS

Directors' dealings and share ownership of members of corporate bodies

Under Section 15a of the German Securities Trading Act (WpHG), the members of the Supervisory Board and Board of Management are legally obliged to disclose the purchase or sale of shares in POLIS or of any financial instruments related to said shares whenever the value of the transactions carried out by the member or persons associated with such member within one calendar year reaches or exceeds EUR 5,000. In financial year 2014, no transactions requiring disclosure were reported.

To the Company's knowledge, the following members of the Board of Management and Supervisory Board as well as persons associated with them hold POLIS shares as follows:

31.12.2014	amount shares*
Dr. Alan Cadmus	32.500
Birgit Cadmus	16.500

*as the company announced

In financial year 2014, the members of the Board of Management received the following compensation:

All figures in EUR '000	Fixed compen-sation	Value of benefits in kind	Variable compen-sation	Total
2014				
Dr. A. Cadmus	232	12	90	334
Dr. M. Piontek	160	12	75	247
	392	**24**	**165**	**581**
2013				
Dr. A. Cadmus	232	11	75	318
Dr. M. Piontek	113	9	50	172
	345	**20**	**125**	**490**

Compensation of the Supervisory Board

The compensation of the Supervisory Board is set forth in Section 21 of the Articles of Association.
The compensation of the members of the Supervisory Board in financial year 2014 was as follows:

All figures in EUR '000	Fixed comensation	Compensation for service or committees	Reimbursement of expenses	Total
2014				
Carl-Matthias von der Recke	20	2	2	24
Klaus R. Müller	15	3	1	19
Martin Eberhardt	10	1	0	11
Wolfgang Herr	10	0	1	11
Ralf Schmechel	10	1	1	12
Benn Stein	10	1	1	12
SUMME	**75**	**8**	**6**	**89**

The compensation of the members of the Supervisory Board in financial year 2013 was as follows:

All figures in EUR '000	Fixed comensation	Compensation for service or committees	Reimbursement of expenses	Total
2013				
Carl-Matthias von der Recke	20	2	1	23
Klaus R. Müller	15	3	2	20
Martin Eberhardt	10	1	1	12
Wolfgang Herr	10	0	2	12
Ralf Schmechel	10	1	2	13
Benn Stein	10	1	1	12
SUMME	**75**	**8**	**9**	**92**

Please refer to our website (www.polis.de) for the declaration on corporate governance with the detailed corporate governance report and declaration of conformity.

RESPONSIBILITY STATEMENT

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the consolidated financial statements give a true and fair view of the net assets, financial position and financial performance of the Group, and the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks relating to the expected future development of the Group.

Berlin, 5 March 2015

POLIS Immobilien AG

– The Board of Management –

Dr. Alan Cadmus **Dr. Michael Piontek**

CONSOLIDATED FINANCIAL STATEMENTS OF POLIS IMMOBILIEN AG FOR FINANCIAL YEAR 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the period from 1 January to 31 December 2014 according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

ASSETS

All figures in EUR '000	Note	31.12.2014	31.12.2013
Non-current assets			
Investment properties	3.1.	313.090	313.210
Intangible assets	3.2.	164	168
Property, plant and equipment	3.2.	156	181
Financial assets	3.3.	4.594	3.772
Deferred tax assets	3.4.	199	186
Other assets	3.7.	786	758
TOTAL NON-CURRENT ASSETS		**318.989**	**318.275**
Current assets			
Receivables and other financial assets	3.5.	5.620	5.565
Current tax receivables	3.5.	23	31
Cash in banks	3.6.	8.778	6.370
Other assets	3.7.	665	793
Non-current assets held for sale	3.1.	0	2.850
TOTAL CURRENT ASSETS		**15.086**	**15.609**
TOTAL ASSETS		**334.075**	**333.884**

EQUITY AND LIABILITIES

All figures in EUR '000	Note	31.12.2014	31.12.2013
Equity			
Subscribed capital	3.8.	110.510	110.510
Capital reserves	3.8.	18.185	18.185
Cash flow hedge reserve		-5.327	-1.343
Reserve for fair value measurement of financial assets	3.3.	758	0
Retained earnings	3.8.	32.171	24.032
Consolidated net income		8.535	8.139
Share in equity allocable to the equity holders of the parent		164.832	159.523
TOTAL EQUITY		**164.832**	**159.523**
Liabilities			
Non-current liabilities			
Liabilities to banks	3.6.	8.778	6.370
Deferred tax liabilities	3.7.	665	793
Other financial liabilities	3.1.	0	2.850
TOTAL NON-CURRENT LIABILITIES		**133.613**	**159.416**
Current liabilities			
Liabilities to banks	3.9.	27.363	6.398
Advance payments received	3.9.	4.039	3.661
Trade payables	3.9.	1.331	2.639
Income tax liabilities	3.9.	138	88
Other financial liabilities	3.9.	2.759	2.159
TOTAL CURRENT LIABILITIES		**35.630**	**14.945**
TOTAL EQUITY AND LIABILITIES		**334.075**	**333.884**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2014 according to International Financial Reporting Standards (IFRS)
POLIS Immobilien AG, Berlin

All figures in EUR '000	Note	2014	2013
Rental income	4.1.	18.396	18.239
Renovation and maintenance expenses	4.2.	-2.418	-2.615
Property management expenses	4.3.	-1.430	-968
		-3.848	**-3.583**
Net rental income		**14.548**	**14.656**
Unrealized gains from the revaluation of investment properties		4.132	5.229
Unrealized losses from the revaluation of investment properties		-1.221	-3.287
Result from the revaluation of investment properties	**4.4.**	**2.911**	**1.942**
Income from the sale of properties		9.650	12.857
Carrying amount of the investment properties sold		-10.050	-12.480
Result from the sale of investment properties	**4.5.**	**-400**	**377**
Other income	4.6.	1.281	375
Other expense	4.7.	-243	-790
Administrative expenses	4.8.	-3.355	-3.506
Result before financing activity and taxes		**14.742**	**13.054**
Investment income	4.9.	197	144
Interest income	4.10.	28	34
Result from the valuation of derivative financial instruments		1.020	2.271
Interest expense	4.11.	-5.725	-5.695
Profit before taxes		**10.262**	**9.808**
Deferred taxes	4.12.	-1.709	-1.453
Current taxes	4.12.	-18	-216
Total income taxes	**4.12.**	**-1.727**	**-1.669**
Consolidated net income		**8.535**	**8.139**
of which: allocable to the equity holders of the parent		8.535	8.139
Other income to be reclassified to profit or loss in subsequent periods:			
Market value of participating interests		900	0
Attributable deferred tax assets		-142	0
Market value of cash flow hedges	3.9.	-4.733	869
Attributable deferred tax assets	3.4.	749	-138
Other income		-3.226	731
CONSOLIDATED COMPREHENSIVE INCOME		**5.309**	**8.870**

Earnings per share All figures in EUR	2014	2013
basic	0,77	0,74
diluted	0,77	0,74

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2014 according to International Financial Reporting Standards (IFRS)

POLIS Immobilien AG, Berlin

All figures in EUR '000	Note	2014	2013
Profit before taxes		**10.262**	**9.808**
Adjusted for:			
Financial and investment result	4.9.,4.10.,4.11.	4.480	3.246
Result from the revaluation of investment properties	3.1.	-2.911	-1.942
Income from the sale of investment properties	4.5.	400	-377
Depreciation/amortization on intangible assets and property, plant and equipment		138	124
Decrease (previous year increase) in trade receivables and other assets which are not allocable to investing or financing activities		53	-884
Decrease in trade payables and other liabilities which are not allocable to investing or financing activities		-1.618	-757
Income tax paid		-66	-210
Income tax received		99	28
Cash flow from operating activities		**10.837**	**9.038**
Payments for the acquisition of software, fixtures and equipment		-119	-74
Proceeds in respect of assets held for sale	3.1.	2.850	12.880
Proceeds from the sale of investment properties	3.1.	6.800	0
Payments for investments in modernization	3.1.	-4.250	-7.313
Payments for the acquisition of investment properties		0	-28.689
Cash flow from investing activities		**5.281**	**-23.196**
Payments for the redemption of loans	3.9.	-15.307	-36.414
Proceeds from the raising of loans	3.9.	6.800	53.614
Interest received		28	34
Interest paid	4.11.	-5.506	-5.162
Dividends received		275	144
Cash flow from financing activities		**-13.710**	**12.216**
Net change in cash and cash equivalents		**2.408**	**-1.942**
Cash in banks at the beginning of the period	**3.6.**	**6.370**	**8.312**
Cash in banks at the end of the period	**3.6.**	**8.778**	**6.370**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2014 according to International Financial Reporting Standards (IFRS)

POLIS Immobilien AG, Berlin

All figures in EUR ’000	Subscribed capital	Capital reserves	Retained earnings	Consoli-dated net income	Cash flow hedge reserve	Reserve for fair value measure-ment of financial assets	Share in equity allocable to the equity holders of the parent	**Total equity**
Balance at 31 Dec 2012	**110.510**	**18.185**	**21.861**	**2.171**	-2.074	0	150.653	150.653
Offsetting against prior-year result	0	0	2.171	-2.171	0	0	0	0
Consolidated net income	0	0	0	8.139	0	0	8.139	8.139
Other income	0	0	0	0	731	0	731	731
Consolidated comprehensive income	0	0	0	8.139	731	0	8.870	8.870
Balance at 31 Dec 2013	**110.510**	**18.185**	**24.032**	**8.139**	**-1.343**	**0**	**159.523**	**159.523**
Offsetting against prior-year result	0	0	8.139	-8.139	0	0	0	0
Consolidated net income	0	0	0	8.535	0	0	8.535	8.535
Other income	0	0	0	0	-3.984	758	-3.226	-3.226
Consolidated comprehensive income	0	0	0	8.535	-3.984	758	5.309	5.309
BALANCE AT 31 DEC 2014	**110.510**	**18.185**	**32.171**	**8.535**	**-5.327**	**758**	**164.832**	**164.832**

Berlin | Potsdamer Strasse 58

Notes to the IFRS Consolidated Financial Statements of POLIS Immobilien AG, Berlin at 31 December 2014

1. GENERAL INFORMATION

POLIS Immobilien AG (hereinafter referred to as "POLIS") is a listed company with its registered office in Berlin, Germany, at Rankestrasse 5/6. Founded in Berlin in 1998, it acquires office buildings for its own portfolio, which are then renovated as required, and possibly also extended. POLIS focuses exclusively on office buildings situated in city centres in key German office locations and invests in properties that exhibit specific potential for value growth or a stable cash flow. POLIS has its own asset management team and manages its entire portfolio of properties itself.
The consolidated financial statements of POLIS for financial year 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the EU, and further in accordance with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code (HGB).

We declare expressly and without reservation that the consolidated financial statements are in conformity with IFRS.

The statement of comprehensive income has been structured according to the cost of sales format and further in conformity with the recommendations of the EPRA (European Public Real Estate Association),
Assets and liabilities are broken down into non-current (maturities of more than one year) and current.
The consolidated financial statements are prepared in euros. For the sake of clarity, amounts are generally shown in thousand euros (EUR '000).
Comprehensive disclosures on capital management objectives, methods and processes, especially with respect to the capital structure, profit targets, value strategy and risk management, are provided in the group management report in the sections "Basic profile of the Group, "Economic report" and "Risk report".
The Board of Management approved the consolidated financial statements on 05 March 2015 for forwarding to the Supervisory Board. It is the Supervisory Board's responsibility to review the consolidated financial statements and to declare whether it approves them.

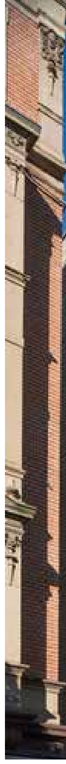
2. ACCOUNTING, MEASUREMENT AND CONSOLIDATION METHODS

2.1. Consolidation principles

The consolidated financial statements comprise the financial statements of Polis AG and its subsidiaries at 31 December 2014. The Group adopted IFRS 10 for the first time in financial year 2014 for the determination of the group; however its adoption did not result in any changes in the scope of consolidation. An affiliated company is consolidated if it is controlled by the Group. Control exists if the Group is exposed to a risk or enjoys entitlements to fluctuating returns from its involvement in the affiliated company, and can also exercise its power of disposal over the affiliated company to influence those returns. In particular, the Group controls an affiliated company if, and only if, it meets all the following criteria:

- it holds power of disposal over the affiliated company (i.e. on the basis of rights currently existing the Group has the possibility of controlling those activities of the affiliated company that have a material influence on its returns),
- it is exposed to a risk from or enjoys entitlements to fluctuating returns from its involvement in the affiliated company, and
- it is able to handle its power of disposal over the affiliated company in such a way as to influence the returns of the affiliated company.

The direct or indirect share of voting rights of POLIS AG in all subsidiaries included in the consolidated financial statements is between 94% and 100%. There are no major restrictions to access to the assets of the Group.



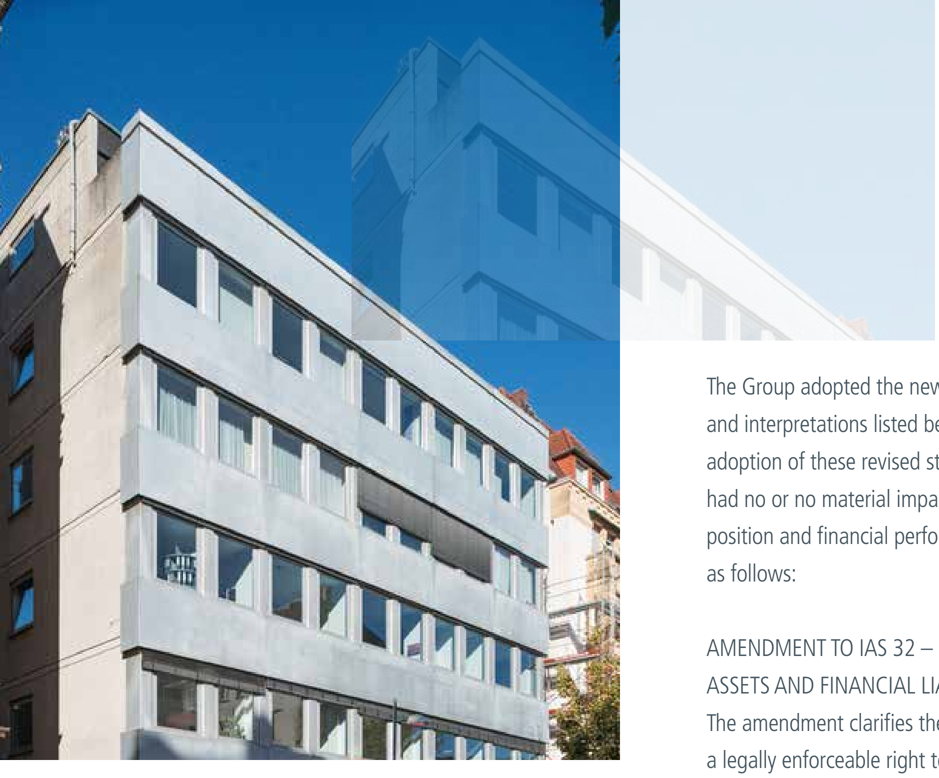
The annual financial statements of all individual subsidiaries are incorporated in the consolidated financial statements using uniform accounting and measurement principles. The reporting date for all subsidiaries is 31 December 2014.
Subsidiaries are fully consolidated as of the time at which control passes to the parent enterprise. They are deconsolidated when control ceases.
Business combinations are accounted for in accordance with IFRS 3. Accordingly, capital consolidation is carried out using the purchase method by offsetting the costs of the participating interest against the newly measured net assets at the time of acquisition. Any remaining positive difference between the costs of acquisition and the market value of the equity is to be recognized as goodwill and tested for impairment annually. A negative difference is to be recognised in income immediately.
No business combinations took place in financial years 2013 and 2014.
Inter-company receivables, liabilities, gains and losses, expenses and income are eliminated in consolidation.

2.2. Consolidated companies

The consolidated financial statements include POLIS Immobilien AG and all companies controlled by POLIS. In ad-

Consolidated companies

Company	Registered Capital EUR '000	Share in capital %	Equity 31.12.2014 EUR '000	Result 2014 EUR '000
POLIS Grundbesitz Objekt Verwaltungs GmbH, Berlin	EUR '000	100	310	24
POLIS Cityfonds Verwaltungs GmbH, Berlin	25	100	29	2
POLIS Objekte Altmarkt Kramergasse GmbH & Co. KG, Berlin	51	100	4.785	922
POLIS Objekt Gutleutstraße 26 GmbH & Co. KG, Berlin	665	100	4.387	-1.277
POLIS Objekt Luisenstraße 46 GmbH, Berlin	26	100	207	38
POLIS Objekt Potsdamer Straße 58 GmbH, Berlin	26	94	2.665	486
POLIS Objekt Landschaftstraße GmbH & Co. KG, Berlin	100	100	5.305	211
POLIS Objekt Konrad-Adenauer-Ufer GmbH & Co. KG, Berlin	100	100	10.100	331
POLIS Quartier Büchsenstraße GmbH & Co. KG, Berlin	100	100	9.418	480
POLIS Objekte Mannheim Stuttgart GmbH & Co. KG, Berlin	100	100	2.165	-12
POLIS Objekte Kassel Köln GmbH & Co. KG, Berlin	100	100	1.450	-310
POLIS Cityfonds Objekt Lessingstraße GmbH & Co. KG, Berlin	100	100	3.863	123
POLIS Zweite Objektgesellschaft Düsseldorf GmbH & Co. KG	100	100	6.139	159
POLIS Zweite Objektgesellschaft Köln GmbH & Co. KG	100	100	14.186	518
POLIS Objekt Könneritzstraße GmbH & Co. KG,Berlin	100	100	1.100	581
POLIS Objekt Palaisplatz GmbH & Co. KG,Berlin	100	100	1.100	23
POLIS Objekte Berliner Allee GmbH & Co. KG	100	100	11.468	28
POLIS Erste Objektgesellschaft Köln GmbH & Co. KG	100	100	11.854	469
POLIS Zweite Objektgesellschaft Stuttgart GmbH & Co. KG	100	100	8.730	140
POLIS Objekt Rankestraße 21 GmbH & KG, Berlin	100	100	13.800	769
POLIS GmbH & Co. Zweiundvierzigste Objekt KG, Berlin	100	100	-1	0
POLIS GmbH & Co. Dreiundvierzigste Objekt KG, Berlin	100	100	0	0
POLIS GmbH & Co. Vierundvierzigste Objekt KG, Berlin	100	100	0	0



dition to POLIS Immobilien AG, the group of consolidated companies includes the 23 fully consolidated companies in Germany with their registered offices in Berlin, as listed in the following overview. Compared with the position at 31 December 2013, the group of consolidated companies for POLIS decreased by one company as a result of an intra-group passage of title. Two new companies which have not yet commenced trading were established. This change does not affect the comparability of the financial statements with the previous year.

2.3. Discretionary decisions and estimates

Assumptions and estimates must be made in the consolidated financial statements that impact the amount and reporting of assets and liabilities, income and expenses as well as contingent liabilities.
In particular, assumptions regarding future events are of material importance in determining the fair values of the investment properties. Please see Section 3.1 for information on individual factors in the context of property valuation. However, it is in the nature of the industry that there is significant latitude in the valuation of the property portfolio that cannot be quantified accurately.

2.4. Accounting and valuation policies

With the exception of investment properties and derivatives as well as certain financial assets, which are recognized at fair value, the consolidated financial statements have been drawn up in accordance with the historical cost principle.

The Group adopted the new and revised IFRS standards and interpretations listed below in the financial year. The adoption of these revised standards and interpretations had no or no material impact on the net assets, financial position and financial performance. The amendments are as follows:

AMENDMENT TO IAS 32 – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES
The amendment clarifies the expression "currently has a legally enforceable right to set off amounts". It in addition clarifies the application of the offsetting criteria of IAS 32 to settlement systems (such as central clearing houses) which practise gross settlement where the individual transactions do not take place simultaneously. The amendment has no effects on the accounting policies applied by the Group.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS
IFRS 10 was published in May 2011 and is to be adopted for the first time in the financial year commencing on or after 1 January 2014. The new standard replaces the provisions of the previous IAS 27 Consolidated and Separate Financial Statements on group accounting and the interpretation SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a uniform concept of control that applies to all companies, including special purpose entities. Moreover, in June 2012 the revised transition guidance was published for IFRS 10-12, which is intended to facilitate first-time adoption of the new standards. Compared with the previous legal position, the changes introduced with IFRS 10 call for the extensive exercising of discretion by the management in assessing which companies in the group are controlled and whether they should therefore be included in full in the consolidated financial statements. IFRS 10 has no effect on the classification of the interests currently held by the Group.

IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES
IFRS 12 regulates the disclosure requirements on interests of an enterprise in subsidiaries, joint arrangements, associates and structured entities. The disclosure requirements for subsidiaries are more extensive than under the previous rules. This affects, for example,

subsidiaries where the parent company does not hold a majority of voting rights (de facto control). The Group has exclusively subsidiaries where the Company holds a majority of voting rights. There are no unconsolidated structured entities.

The IASB has published further new or amended standards and interpretations, the first-time adoption of which was mandatory in the past financial year but which had no effect on the Company.

> 2.4.1. Fair value measurement

POLIS measures financial instruments, such as derivatives and financial assets, as well as investment property, at their fair value at each reporting date.

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability at the measurement date in a proper transaction between market participants. When measuring fair value, it is assumed that the transaction in the context of which the asset is sold or the liability is transferred takes place on either

- the main market for the asset or liability or, if no main market exists, on the

- most advantageous market for the asset or liability.

For this purpose POLIS must have access to the main market or the most advantageous market.

The fair value of an asset or liability is measured using the assumptions that market participants would apply as their basis when establishing the price of the asset or liability. For this purpose it is assumed that the market participants act in their best economic interest.

Fair value measurement of a non-financial asset takes account of the ability of the market participant to generate economic benefit through the highest and best use of the asset or through its sale to another market participant, who finds the highest and best use of the asset.

POLIS applies valuation techniques that are appropriate in each specific set of circumstances and for which sufficient data is available to measure the fair value. The use of significant, observable input factors is to be maximized, and the use of non-observable input factors kept to a minimum.

All assets and liabilities for which the fair value is determined or is reported in the notes are placed in the fair value hierarchy as described below, based on the lowest-level input parameter that is materially significant for fair value measurement overall:

- **LEVEL 1** – quoted (not adjusted) prices in active markets for identical assets or liabilities

- **LEVEL 2** – valuation methods where the lowest-level input parameter that is materially significant for fair value measurement is directly or indirectly observable on the market

- **LEVEL 3** – valuation methods where the lowest-level input parameter that is materially significant to the fair value measurement is not observable on the market

For assets and liabilities that are measured at fair value on a recurring basis in the financial statements (in this instance, the investment properties, certain financial assets as well as the derivatives for interest rate hedging), POLIS determines whether regrouping has taken place between the levels in the hierarchy by examining the classification, based on the lowest-level input parameter that is materially significant for fair value measurement overall, at the end of each reporting period.

POLIS defines the guidelines and methods for recurring and non-recurring fair value measurements.

External valuers are consulted for the valuation of significant assets, such as properties, as well as significant liabilities, such as derivatives.

At each reporting date POLIS analyses the trends in value of assets and liabilities that need to be remeasured or reassessed according to the POLIS accounting policies. In this analysis, the Board of Management compares the information in the valuation calculations with contracts and other relevant documents by way of checking the principal input factors that were applied in the previous valuation.

Together with the external valuers, POLIS in addition compares the changes in fair value for each asset and liability with corresponding external sources, to establish whether those changes are plausible.

In order to meet the disclosure requirements for fair values, POLIS has defined groups of assets and liabilities based on their type, features and risks as well as the levels in the fair value hierarchy explained above.

> 2.4.2. Investment properties

Properties are classified as investment properties if they are held for generating rental revenues and/or for the purpose of capital appreciation, and if own use as a proportion of the rental space does not exceed 5%. POLIS acquires properties for its own portfolio and does not have specific intentions of selling them; however, opportunities that arise in the context of the moderate buy and sell-strategy are pursued.

Investment properties are measured at cost, including ancillary costs, at the time of their acquisition. The subsequent valuation of the investment properties is at fair value, with gains or losses from the change in fair value being recognized in income.

The fair value of a property is the price that would be received for the sale of the property on the valuation date, in an ordinary transaction between market participants. See Section 3.1 for a more detailed explanation of the principles used in determining fair value.

Investment properties are derecognized if they are sold.

> 2.4.3. Intangible assets

Intangible assets with a limited useful lifetime are recognized at acquisition or production cost and are amortized by the straight-line method over a period of between three and five years depending on their expected useful life.

> 2.4.4. Property, plant and equipment

Property, plant and equipment are measured at acquisition or production cost less straight-line depreciation and impairment. Fixtures and equipment are depreciated over a period of between three and 13 years. If property, plant and equipment are sold or decommissioned, the acquisition or production cost and the corresponding accumulated depreciation of the fixed assets are derecognized; any resulting gains or losses are reflected in income.

> 2.4.5. Financial assets

Financial assets are recognized on the date on which the Company becomes a contracting party with respect to the financial instrument and thus becomes entitled to receive performance or obliged to pay counter-performance.

The disposal takes place either when the financial asset is transferred to a third party or when the contractual rights to the cash flows from the asset expire. Financial assets are measured at fair value upon initial recognition.

The subsequent measurement depends on the classification of the financial instruments in accordance with the measurement categories of IAS 39. The classification categories "Measured at fair value through profit and loss", "Loans and receivables" and "Financial assets held for sale" are used.

The financial assets of POLIS are composed of the following balance sheet items:

a) Financial assets

Subsequent valuation is fundamentally performed at fair value. Interests for which no quoted price is available on an active market and the fair value of which cannot be reliably estimated are stated at cost and measured at amortized cost in subsequent years.

b) Receivables and other financial assets

Receivables arise as a result of the direct furnishing of cash, goods or services to a debtor and where there is no intention to dispose of them immediately or in the short term. Receivables are non-derivative financial assets, with payments that are fixed or can be determined and that are not quoted on an active market. Receivables and other financial assets are initially measured at fair value and on subsequent reporting dates at amortized cost using the effective interest method, less any impairments.

c) Cash in banks

Cash in banks is recorded at nominal value at the reporting date.

> 2.4.6. Non-current assets held for sale

A non-current asset (or a disposal group) is classified as "held for sale" if the associated carrying amount is largely realized by a sale transaction rather than by continued use. In the consolidated financial statements, those non-current assets that are to be sold by way of an asset deal if a sale is highly probable within the next twelve months are disclosed separately as properties held for sale in accordance with IFRS 5.
Where such assets represent investment properties, they are recorded at their fair value.

> 2.4.7. Income taxes

The amount of current income taxes still unpaid is shown as a liability. Overpayments of income taxes are reported as a receivable.

Deferred taxes are formed using the balance-sheet-oriented liability method for all temporary differences between the carrying amounts of the consolidated statement of financial position and the tax basis. In addition, deferred taxes are reported for expected future tax reductions from losses carried forward. Deferred tax assets for temporary differences and for tax losses carried forward are formed at the amount of the anticipated tax relief of subsequent financial years if their use is probable.
Deferred taxes are calculated based on the applicable tax rates in accordance with current laws. They are based on the legal regulations that apply or have been enacted at the reporting date.

Deferred tax assets and liabilities are reported as non-current assets or liabilities. They are netted if a legally enforceable claim for offsetting exists in relation to the same tax authority.

> 2.4.8. Financial liabilities

A financial liability is recognized if the Company is a contracting party subject to the terms of the financial liability. Financial liabilities are derecognized when the corresponding obligation has been discharged, i.e. when it has been paid or cancelled or has expired.
The financial liabilities of POLIS are made up of the following items:

a) Liabilities to banks

When recognized for the first time, loans are measured at the fair value of the consideration received for the exchange of the obligations, less the transaction costs directly attributable to raising the loans. Subsequent measurement is at amortized cost using the effective interest method. Gains and losses are recognized in income if the liability is derecognized, as well as in the context of repayment using the effective interest method.

b) Trade payables, other financial liabilities and financial liabilities

to the extent that they do not represent derivative financial instruments, are measured at the fair value of the consideration received for the exchange of the obligations. Subsequent measurement is at amortized cost using the effective interest method. After their first-time recognition, derivative financial instruments with a negative market value are measured on each reporting date at their fair value. Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship with an underlying transaction.

Derivative financial instruments (interest rate swaps) are used to hedge the interest rate risks of variable-rate loans. Some of the hedging relationships do not satisfy the criteria of IAS 39 with respect to hedging relationships (hedge accounting).

The derivative financial instruments are initially and subsequently recognized and measured at fair value. The fair values are determined using directly observable market parameters. Accordingly, the fair values determined for the derivative financial instruments are to be classified as Level 2 in the hierarchy according to IFRS 13.94 (determination of the fair values based on observable inputs that do not represent observable prices on active markets). Fair value changes are recognized in income unless the derivative financial instruments are used in a designated and sufficiently effective hedging relationship with an underlying transaction.

Some of the derivative financial instruments are designated as hedging instruments so that the statement of financial position reflects the hedge against the risk of variation in the future cash flows that is associated with an asset or liability recognized in the statement of financial position, or associated with a transaction that will materialize with a high degree of probability. In this context, the unrealized gains and losses of the effective portion of the hedge are initially recognized under "Other income". They are only transferred to the income statement once the underlying transaction of the hedge has been recognized in income.

In addition to documenting the hedging relationship between the hedge and the underlying transaction, hedge accounting requires proof of the effectiveness of the hedging relationship between the hedge and the underlying transaction. In the case of an effective relationship, the effective portion of the change in value of the hedge is recorded under "Other income", while the non-effective portion is recognized in the consolidated income statement.
If planned transactions are hedged, and if such transactions lead to the recognition of a financial asset or a financial liability for the hedge in subsequent periods, the sums recorded within equity up to such time are reversed in income in the reporting period in which the hedged underlying financial transaction also influences the result for that period. If the transaction leads to the recognition of non-financial assets or liabilities, the amounts recorded under "Other income" are offset against the initially recognized value of the asset or liability.

> 2.4.9. Impairment

There is impairment of financial assets recognized at amortized cost if, since initial recognition of the financial asset, a loss has occurred that has an effect that can be reliably estimated on the expected future cash flows for the financial asset. Indications of impairment may include when there is evidence that the debtor is experiencing considerable financial difficulties, when interest payments or capital repayments are missed or late, when an insolvency is likely, or in similar circumstances. The calculated level of an impairment loss that is recognized as an expense is the difference between the carrying amount of the asset and the present value of the anticipated future cash flows. The present value of the anticipated future cash flows is discounted at the original effective interest rate. In the case of financial assets, the evaluation of recoverability is based on the expected future distributions. Impairments of trade receivables and other receivables are recorded in separate allowance accounts. In order to determine impairments, individual receivables are extensively estimated and evaluated on the basis of credit ratings and analyses of historical defaults on receivables. A direct reduction in the carrying amount or derecognition of any previously recorded impairment only occurs when a receivable has become irrecoverable.
If not measured at fair value, non-financial, non-current

assets are tested for impairment whenever an impairment indicator is identified. This situation has not arisen in the past two financial years.

> 2.4.10. Expense and income realization

Income is recognized if it is probable that the economic benefit will accrue and if the income can be reliably determined.
Sales revenues or other operating income are recognized as soon as the service has been rendered. Rental income is realized when the leased property has been handed over. Rental income is distributed on a straight-line basis corresponding to the term of the lease agreements and thus reflects the income that is attributable to the rent-free periods.

When properties are sold, profit is realized as a matter of principle at the time at which title passes to the buyer under civil law. Income is realized earlier if the significant risks and rewards associated with the properties in question are already transferred prior to fulfilment of the legal requirements, the seller no longer has any authority to dispose of the property, and the costs incurred in connection with the sale can be accurately determined.

Operating expenses are recognized when the service is used or at the time of its economic causation. Investment income is recorded at the time at which the Company becomes entitled to receive distributions. Financial income includes interest income from cash in banks as well as income from changes in the fair value of financial instruments to the extent that these are not recorded under "Other income".

The financial expenses include interest expense for loans as well as expenses from fair value changes for financial instruments to the extent that these are not recorded under "Other income". Interest income and interest expense are recognized based on the effective interest method.

> 2.4.11. Leases

All lease agreements that POLIS has concluded with its tenants are classified as operating leases since all rewards and risks incident to ownership remain with the Group. Accordingly, POLIS is the lessor in all leases (operating leases) of varying form for its investment properties.
Lease agreements with tenants stipulate individual terms and conditions.
The Group has leased an office floor as well as vehicles and office equipment. Based on their economic content, these leases constitute operating leases for which the expense is distributed over the rental period by the straight-line method.

> 2.4.12. Borrowing costs

All borrowing costs are recognized in income in the period in which they are incurred.

> 2.4.13. Standards published but the adoption of which is not yet mandatory

The IASB has published the following standards and interpretations, adoption of which was not yet mandatory in financial year 2014. These standards and interpretations have not yet been endorsed by the EU and are not adopted by the Group. The first-time adoption of the following standards is in each case planned from the date on which it takes effect.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published on 28 May 2014 and is to be adopted for the first time in the financial year commencing on or after 1 January 2017. As the performance period of the revenue falls only up until the reporting date and exclusively letting services are performed, IFRS 15 is not expected to result in any material changes to accounting for revenue.

IFRS 9 Financial Instruments

The IASB published the final version of **IFRS 9** "Financial Instruments" on 24 July 2014. This completed the project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a

uniform approach to the classification and measurement of financial assets on the basis of their cash flow characteristics and the business model by which they are controlled, and envisages a new impairment model based on expected credit losses. IFRS also contains new rules on the use of hedge accounting in order to present the risk management activities of an entity better, in particular in respect of the controlling of non-financial risks. The new standard is to be adopted for financial years beginning on of after 1 January 2018; early adoption is permissible. The European Financial Reporting Advisory Group has postponed the recommendation to adopt IFRS 9. The Company is currently examining what effects the adoption of IFRS 9 will have on the consolidated financial statements. As part of the annual improvements project, amendments were published on 12 December 2013 for endorsement by the EU in Q4/2014 and for adoption for financial years beginning on or after 1 July 2014:
The IASB has in addition published further amendments to (existing) IFRSs, the future adoption of which will be mandatory, but which will have no effect on the consolidated financial statements.

2.5. Segment reporting

In accordance with IFRS 8, POLIS has identified twenty three operating segments for which internal reporting to the chief operating decision maker (CODM) takes place. In general terms, one operating segment corresponds to one property. All operating segments have comparable economic characteristics (office buildings situated in the city centres of key German office locations) and similar long-term revenue prospects and, in accordance with IFRS 8.12, are therefore aggregated into a single operating segment with reporting obligations.

3. DISCLOSURES RELATING TO THE STATEMENT OF FINANCIAL POSITION

3.1. Investment properties and properties held for sale

All investment properties of POLIS are held for the purpose of generating rental revenues and/or capital appreciation. There are no restrictions as to the disposability of the investment properties.
The investment properties are measured at fair value. Changes in the fair value are recognized as income in the statement of comprehensive income in the form of unrealized gains and losses from the revaluation of investment properties.

Cologne | Ebertplatz 1
Staircase

The following overview highlights the development of the investment properties in 2014:

Property		Fair value 01.01.2014 EUR '000	Modernization investments EUR '000	Disposals EUR '000	Changes in market EUR '000	Fair value 31.12.2014 EUR '000
Luisenstrasse 46	Berlin	11.870	0	0	370	12.240
Potsdamer Str. 58	Berlin	15.630	0	0	90	15.720
Rankestrasse 21/ Lietzenburger Str. 44-46	Berlin	29.350	610	0	770	30.730
Altmarkt 10/Kramergasse 2	Dresden	36.730	596	0	444	37.770
Könneritzstrasse	Dresden	10.780	107	0	243	11.130
Palaisplatz	Dresden	5.480	135	0	55	5.670
Berliner Allee 42	Dusseldorf	6.800	63	0	97	6.960
Berliner Allee 44	Dusseldorf	8.280	335	0	15	8.630
Berliner Allee 48	Dusseldorf	5.380	26	0	-126	5.280
Steinstrasse 27	Dusseldorf	9.960	0	0	-50	9.910
Gutleutstrasse 26	Frankfurt a. M.	8.050	1.006	0	-596	8.460
Landschaftstrasse 2	Hanover	4.480	1	0	79	4.560
Landschaftstrasse 8	Hanover	3.980	0	0	60	4.040
Ebertplatz 1	Cologne	9.340	0	0	-40	9.300
Gustav-Heinemann-Ufer 54	Cologne	17.830	226	0	184	18.240
Hansaring 20	Cologne	4.650	137	0	103	4.890
Konrad-Adenauer-Ufer 41-45	Cologne	22.420	5	0	245	22.670
Neumarkt 49	Cologne	8.760	0	0	200	8.960
Weyerstrasse 79-83	Cologne	16.290	0	0	290	16.580
Rheinstrasse 43-45	Mainz	2.630	18	2.648	0	0
Rheinstrasse 105-107	Mainz	4.190	362	4.522	0	0
Lessingstrasse 14	Munich	9.800	0	0	190	9.990
Böblinger Strasse 8/ Arminstraße 15	Stuttgart	4.120	109	0	-409	3.820
Quartier Büchsenstrasse	Stuttgart	45.610	332	0	598	46.540
Tübinger Strasse 31 u. 33	Stuttgart	10.800	100	0	100	11.000
		313.210	**4.169**	**7.200**	**2.911**	**313.090**

NOTES

The modernization investments include comprehensive construction work for the modernization of the properties as well as all measures required for establishing the contractually agreed condition of individual rental units upon conclusion or extension of lease agreements. Of the modernization investments conducted in 2014, EUR 3,627 thousand (previous year EUR 6,246 thousand) is cash-effective. Including payments made for modernization costs in the previous year, overall payments come to EUR 4,250 thousand.

Revaluation produced an overall increase in market value of EUR 2,911 thousand. There were positive valuation results for the properties at "Rankestrasse 21/Lietzenburger Str. 44-46" in Berlin from successes in the letting area and the completion of extensive construction work following the transfer of possession, and at "Altmarkt 10/Kramergasse 2" in Dresden from the extension of several lease agreements. One major tenant at "Quartier Büchsenstrasse" in Stuttgart did not exercise its option of extraordinary termination; this had a positive effect on the valuation. The extending of the pedestrian zone along our building will appreciably upgrade the surroundings. That work is due for completion in March 2015. The main negative valuation result concerned the investment property at "Gutleutstrasse 26" in Frankfurt am Main because of higher conversion and restructuring costs following the departure of the sole tenant with effect from 31 December 2013.

The disposals concern sales aimed at optimizing the portfolio. The sale of "Rheinstrasse 43-45" and "Rheinstrasse 105-107" in Mainz produced a loss of EUR 400 thousand, which is reported in the income statement. The sale of "Gallenkampstr. 20" in Duisburg in 2013 was at the prior-year market value.

Dresden | Könneritzstrasse 29

Non-current assets held for sale

The property at "Immermannstrasse 11" in Dusseldorf held for sale at 31 December 2013 has now been transferred to the buyers according to schedule. The purchase price of EUR 2,850 thousand was paid in 2014.

Development of the investment properties in 2013:

Property EUR '000		Fair value 01.01.2013	Acquisi-tions	Moderniz-ation invest-ments	Dispo-sals	Reclassi-fications	Chan-ges in market	Fair value 31.12.2013
Luisenstrasse 46	Berlin	11.150	0	19	0	0	701	11.870
Potsdammer Strasse 58	Berlin	15.360	0	12	0	0	258	15.630
Rankestrasse 21/ Lietzenburger Str. 44-46	Berlin	0	28.689	0	0	0	661	29.350
Kleppingstrasse 20	Dortmund	5.300	0	0	-5.300	0	0	0
Altmarkt 10/ Kramergasse 2	Dresden	35.790	0	427	0	0	513	36.730
Könneritzstrasse	Dresden	10.330	0	97	0	0	353	10.780
Palaisplatz	Dresden	5.070	0	293	0	0	117	5.480
Gallenkampstrasse 20	Duisburg	1.680	0	0	-1.680	0	0	0
Berliner Allee 42	Dusseldorf	6.760	0	142	0	0	-102	6.800
Berliner Allee 44	Dusseldorf	8.050	0	178	0	0	52	8.280
Berliner Allee 48	Dusseldorf	5.415	0	73	0	0	-108	5.380
Immermannstr. 11	Dusseldorf	3.180	0	16	0	-2.850	-346	0
Steinstrasse 27	Dusseldorf	9.710	0	7	0	0	243	9.960
Gutleutstrasse 26	Frankfurt a. M.	10.200	0	0	0	0	-2.150	8.050
Landschaftstrasse 2	Hanover	4.500	0	1	0	0	-21	4.480
Landschaftstrasse 8	Hanover	3.960	0	12	0	0	8	3.980
Ebertplatz 1	Cologne	9.000	0	675	0	0	-335	9.340
Gustav-Heinemann-Ufer 54	Cologne	16.570	0	742	0	0	518	17.830
Hansaring 20	Cologne	4.200	0	394	0	0	56	4.650
Konrad-Adenauer-Ufer 41-45	Cologne	22.280	0	20	0	0	120	22.420
Neumarkt 49	Cologne	8.570	0	63	0	0	127	8.760
Weyerstrasse 79-83	Cologne	15.930	0	19	0	0	341	16.290
Rheinstrasse 43-45	Mainz	2.560	0	65	0	0	5	2.630
Rheinstrasse 105-107	Mainz	4.090	0	38	0	0	62	4.190
Lessingstrasse 14	Munich	9.510	0	0	0	0	290	9.800
Böblinger Straße 8/Arminstrasse 15	Stuttgart	4.230	0	115	0	0	-225	4.120
Quartier Büchsenstrasse	Stuttgart	43.575	0	1.370	0	0	665	45.610
Tübinger Straße 31 u. 33	Stuttgart	8.570	0	2.092	0	0	138	10.800
		285.540	28.689	6.869	-6.980	-2.850	1.942	313.210

Expenses and income directly attributable to investment properties

In addition to the unrealized gains and losses from the revaluation of investment properties as well as the income from the sale of investment properties, the statement of comprehensive income includes the following directly attributable sums associated with the investment properties: Directly attributable property management costs that did not generate rental revenues relate to vacancy costs determined on the basis of the vacancy rates of the individual investment properties.

	2014			2013		
EUR '000	Total	Properties held for sale	Investment properties	Total	Properties held for sale	Investment properties
Rental revenues from investment properties	18.396	0	18.396	18.239	192	18.047
Expenses directly attributable to the generation of rental revenues						
Renovation and maintenance expenses	2.418	0	2.418	2.615	26	2.589
Property management	1.175	0	1.175	689	16	673
TOTAL	**3.593**	**0**	**3.593**	**3.304**	**42**	**3.262**
Expenses directly attributableto but not resultingin the generation of rental revenues						
Property management expenses	255	0	255	279	2	277
TOTAL	**255**	**0**	**255**	**279**	**2**	**277**

Information concerning property valuation at 31 December 2014

The fair values of the properties at 31 December 2014 and at the reporting date for the previous year were determined on the basis of valuations carried out by an independent expert as well as by internal valuations. POLIS commissioned FERI EuroRating Services AG, Bad Homburg, (hereinafter "FERI") to determine the market values of six buildings owned by POLIS at 31 December 2014 and to document these in the form of rating reports and market value appraisals. For valuing the entire portfolio, FERI receives all-inclusive compensation that is independent of the market values it has determined.

In addition, properties were valued internally. Valuation takes place quarterly, with one-quarter of the portfolio valued externally and three-quarters valued internally at each valuation date. The internal valuations are examined by a FERI supervisor. The internal property valuation process follows the same principles as valuation by FERI. FERI's market research is used to supplement the internal detailed planning work. At the end of each quarter, updated property-specific market rent forecasts determined by FERI are entered into a software-based valuation tool and form the basis for planning revenue.

Also, the effects of overall interest rate trends and of location and property-specific developments on the discount rate are researched and adjusted based on FERI's interest rate forecast.

The value determined is the market value defined by the International Valuation Standards as follows: "Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently, and without compulsion.

For the POLIS portfolio, the above definition of market value as laid down by the International Valuation Standards tallies with the definition of fair value according to IFRS 13. The terms "market value" and "fair value" are therefore used accordingly in the following.
The provisional market values are analyzed following their calculation and significant changes compared with the previous valuation are plausibility-checked. Once the final market value is established, the report is submitted to the Board of Management. It then communicates the market valuation to the Supervisory Board on a quarterly basis.
The basis for determining the market value is the capitalized earnings method according to the International Valuation Standards. The real estate valuation comprehensively takes into account all factors that influence the value of the property. To the extent possible, subjective value judgments are confirmed objectively by applying quantitative analytical methods.

The property's market value is determined using the discounted cash flow method. The difference between the rental income and the renovation and maintenance costs as well as the costs of managing the property represents the net cash flow, which is then discounted using the so-called break-even yield.
Rental income initially contains the contractually agreed rents. The rental income from letting vacant space and from re-letting properties after the existing lease agreements have expired is forecast on the basis of the market rents that are expected for each property and then added to the above figure. The property-specific market rent is estimated on the basis of FERI's research.

The market rent that is expected for each property is derived from mark-ups and mark-downs on the general market rent based on the rating results for the desirability of the property. FERI's real estate valuation assesses the desirability and the risk of a property and measures the factors required for determining the net cash flow and the discount factor. Rating indicators for the desirability of a property are the macro environment, the micro environment and the quality of the property. As part of determining the risk profile of a property, the tenant-specific risk is likewise determined by evaluating tenant creditworthiness, tenant concentration and contractual conditions. All criteria are evaluated using the FERI rating algorithm, which values the property on a scale from 1 to 100 points. The points are then classified into ten valuation grades ranging from AAA (outstanding) to E- (very poor).

The break-even yield represents the rate of return that an individual property must generate to achieve a yield that is appropriate for the risk. It reflects all risks that are associated with the investment in an individual property. The break-even yield is individually determined on the single property level.

The weighted break-even yield for all properties is 6.7% (previous year 6.7%). An increase or a decrease in the average break-even yield of 0.25% points would increase or decrease the market values by approximately 2.0%. Other input factors can have a significant influence on market values: vacancy rate, annual rent growth, letting scenario, as well as construction and maintenance costs.
As a general principle, a total useful life of 65 years from the year of construction was assumed for all valuation properties. Possible renovation measures and the overall structural state of preservation at the reporting date were analyzed, and may extend the remaining useful life of the property in question.

Furthermore, the cash flow projections are based on the following assumptions:

- The average vacancy rate across the portfolio of 5.4% at the valuation date (previous year 7.3%) will be largely eliminated within one year. The mid-term planning horizon assumes vacancy rates of between 1.7% at best and a maximum of 7.1%, depending on the individual properties.

- The valuation scenario shows an average increase in rents of approximately 0.90% (previous year 2.85%) in the first year. The greater part of this increase in the rent is in line with the aforementioned reduction in vacancies and the rent increase from index-linked lease agreements. The resulting assumed increase in rents averages 2.31% per year (previous year 1.69%) until the end of the ten-year planning horizon. The movement compared with the previous year is attributable to changes in the assumptions on how rents will develop. In the year currently in progress, much flatter rent rises are forecast at the start, with a sharper increase towards the end of the period in question.

- In the long-term (2015-2024), our plans are based on average maintenance costs of EUR 1.79 (previous year EUR 1.07) per square metre of rental space per month, which includes EUR 0.86 (previous year EUR 0.68) per square metre per month for current maintenance. For 2015 we have identified increased maintenance costs of EUR 2.36 per square metre of rental space per month, including a component of EUR 0.61 for current maintenance. The increased maintenance costs in 2015 are mainly as a result of defective façades and flat roofs on some of our buildings.

- Detailed figures on vacancy rates and rental revenues are given in the management report (page 8 et seq.).

Dusseldorf | Berliner Allee 44
Office building

The assumptions used in the cash flow projections are presented in detail in the following table:

%	Vacancy rate 31.12.2014 (area)	Expected vacancy rate 31.12.2015 (area)	Longterm vacancy rate (businessplan 2015) (area)	Planned shortterm rent increase (revenue)	Planned shortterm rent increase (revenue)	Break-Even-yield 31.12.2014
Rankestrasse 21 / Lietzenburger Str. 44, 46	4,01	1,60	6,10	0,94	2,15	6,7
Luisenstrasse 46	0,00	0,00	5,28	1,14	1,90	6,5
Potsdamer Strasse 58	0,49	0,00	5,96	3,77	2,72	6,8
Altmarkt 10 / Kramergasse 2, 4	0,66	2,41	5,51	1,44	1,15	6,7
Könneritzstrasse 29, 31, 33	0,00	1,46	5,99	0,53	2,25	6,9
Palaisplatz 3, 3a	1,33	0,90	4,18	0,01	1,76	6,8
Berliner Allee 42	2,67	25,83	8,96	-1,34	1,97	6,8
Berliner Allee 44	0,82	22,26	8,19	3,66	2,53	6,8
Berliner Allee 48	15,84	18,01	8,38	0,28	0,98	6,8
Steinstrasse 27	0,31	3,37	7,87	2,35	1,77	6,5
Gutleutstrasse	100,00	0,00	10,28	1,49	3,40	6,7
Landschaftstrasse 2	0,00	0,00	7,88	1,50	1,87	6,9
Landschaftstrasse 8	0,00	0,00	0,00	10,04	1,94	6,7
Ebertplatz 1	2,13	9,25	7,97	2,65	2,27	6,6
Gustav-Heinemann-Ufer 54	1,64	1,74	3,83	0,49	1,49	6,6
Hansaring 20	27,54	13,91	10,71	0,99	2,21	6,9
Konrad-Adenauer Ufer 41-45	4,30	3,16	5,22	0,67	2,22	6,3
Neumarkt 49	0,00	0,00	7,48	0,26	2,77	6,8
Weyerstrasse 79-83	1,80	1,80	1,66	-0,83	5,13	6,8
Lessingstrasse 14	0,24	0,24	7,30	-1,56	3,16	6,7
Böblinger Strasse 8 / Arminstrasse 15	7,24	1,53	5,19	2,57	1,54	6,8
Quartier Büchsenstrasse	6,72	5,58	3,90	-0,06	1,53	6,5
Tübinger Straße 31,33	6,19	3,81	9,62	-1,42	5,02	6,6
PORTFOLIO	**5,38**	**3,84**	**5,76**	**0,90**	**2,31**	**6,7**

The actual vacancy rate (5.38%) across the entire portfolio has fallen compared with the previous year's projection (7.30%) and is expected to reach 3.84% at 31 December 2015. The positive development in 2014 is the result of the high level of take-up in the past financial year 2014 and effective management of lease agreements, prompting sitting tenants to extend their lease agreements. The expected development in the vacancy rate up until the end of 2015 depends essentially on whether the property at "Gutleutstrasse 26" can be let as planned.

The planned long-term rent increase has risen from 1.69% in the prior-year projection to 2.31%. The improvement comes mainly from the healthier development in rents expected further down the line. The short-term rent increase is well down on the prior-year projection due to falling inflation.

NOTES

The assumptions used in the cash flow projections are presented in detail in the following table:

%	Vacancy rate **31.12.2013** (area)	expected vacancy rate **31.12.2014** (area)	Planned shortterm rent increase (revenue)	Planned shortterm rent increase (revenue)
Rankestrasse 21 / Lietzenburger Str. 44, 46	3,80	0,53	2,94	2,13
Luisenstrasse 46	0,00	0,00	2,37	1,40
Potsdamer Strasse 58	0,93	0,00	2,40	1,90
Altmarkt 10 / Kramergasse 2, 4	3,84	2,49	-0,33	1,19
Könneritzstrasse 29, 31, 33	3,22	1,46	0,86	0,71
Palaisplatz 3, 3a	26,64	2,57	0,54	1,68
Berliner Allee 42	13,60	1,05	1,62	2,25
Berliner Allee 44	52,92	1,51	1,07	-0,78
Berliner Allee 48	5,94	15,65	3,92	1,35
Steinstrasse 27	0,69	0,20	5,12	2,10
Gutleutstrasse	0,00	34,77	0,82	1,32
Landschaftstrasse 2	0,00	0,00	1,99	1,69
Landschaftstrasse 8	0,00	0,00	9,98	1,53
Ebertplatz 1	2,41	2,93	1,82	2,54
Gustav-Heinemann-Ufer 54	2,06	3,90	1,93	1,71
Hansaring 20	43,20	5,72	0,00	1,40
Konrad-Adenauer Ufer 41-45	4,30	3,16	0,79	1,83
Neumarkt 49	0,00	0,00	3,86	0,94
Weyerstrasse 79-83	2,63	1,29	4,57	1,37
Rheinstrasse 43-45	29,65	1,42	1,39	1,84
Rheinstrasse 105-107	16,09	0,83	0,26	1,38
Lessingstrasse 14	0,24	16,01	4,17	3,34
Böblinger Strasse 8 / Arminstraße 15	14,49	8,61	5,57	1,53
Quartier Büchsenstrsse	9,61	3,89	5,16	1,76
Tübinger Strasse 31,33	6,60	3,09	-0,26	2,58
PORTFOLIO	**7,30**	**3,49**	**2,85**	**1,69**

The following overview shows key information on the sensitivity of market valuations:

Change in valuations, EUR '000	Fair Value per 31.12.2014	Long-term gross profit -10 %	Long-term gross profit +10 %	Annual rent growth -1 %	Annual rent growth +1 %	Rental income -1 %	Rental income +1 %	Discount rate +25 base points	Discount rate -25 base points
BERLIN									
Rankestr. 21 /Lietzenburger Str. 44, 46	30.730	-1.597	1.601	-1.063	1.142	-136	146	-595	614
Luisenstrasse 46	12.240	-349	342	-229	240	-52	52	-239	236
Potsdamer Strasse 58	15.720	-973	973	-832	510	-73	73	-327	329
DRESDEN									
Altmarkt 10/Kramergasse 2/4	37.770	-1.100	1.122	-815	893	-191	189	-727	737
Könneritzstrasse 29,31,33	11.130	-500	498	-356	382	-59	66	-216	218
Palaisplatz 3/3a	5.670	-544	391	-339	356	-27	35	-109	113
DUSSELDORF									
Berliner Allee 42	6.960	-529	351	-202	218	-31	42	-137	144
Berliner Allee 44	8.630	-445	451	-352	382	-35	40	-165	177
Berliner Allee 48	5.280	-120	114	-88	91	-31	23	-112	111
Steinstrasse 27	9.910	-796	807	-504	547	-33	53	-190	197
FRANKFURT AM MAIN									
Gutleutstrasse	8.460	-115	124	-97	115	-34	56	-219	232
HANOVER									
Landschaftstrasse 2	4.560	-361	362	-254	266	-47	15	-97	92
Landschaftstrasse 8	4.040	3	3	3	3	-16	9	-79	87
KÖLN									
Ebertplatz 1	9.300	-366	355	-242	245	-49	47	-198	195
Gustav-Heinemann-Ufer 54	18.240	-1.001	1.002	-758	808	-96	98	-353	355
Hansaring 20	4.890	-325	334	-188	197	-34	25	-97	103
Konrad-Adenauer Ufer 41-45	22.670	-356	354	-235	244	-102	93	-433	437
Neumarkt 49	8.960	-472	462	-400	423	-45	36	-173	167
Weyerstrasse 79-83	16.580	-472	475	-398	436	-69	75	-333	343
MUNICH									
Lessingstrasse 14	9.990	-469	467	-277	278	-49	46	-197	195
STUTTGART									
Böblinger Strasse 8 / Arminstrasse 15	3.820	-151	151	-108	116	-12	18	-83	85
Quartier Büchsenstrasse	46.540	-888	890	-706	667	-194	211	-905	916
Tübinger Strasse 31/33	11.000	-597	595	-505	543	-43	48	-211	215
PORTFOLIO	**313.090**	**-12.523**	**12.224**	**-8.945**	**9.102**	**-1.458**	**1.496**	**-6.195**	**6.298**

The following overview shows key information on the sensitivity of market valuations in the last year:

Change in valuations, EUR '000	Fair Value per 31.12.2013	Long-term gross profit -10 %	Long-term gross profit +10 %	Annual rent growth -1 %	Annual rent growth +1 %	Rental income +/-1 %	Discount rate +25 base points	Discount rate -25 base points
BERLIN								
Rankestr. 21 /Lietzenburger Str. 44, 46	29.350	-1.645	1.643	-1.183	1.273	130	-566	573
Luisenstrasse 46	11.870	-329	336	-192	214	53	-221	227
Potsdamer Strasse 58	15.630	-936	938	-654	545	71	-299	303
DRESDEN								
Altmarkt 10/Kramergasse 2/4	36.730	-1.023	1.032	-736	795	190	-687	706
Könneritzstrasse 29,31,33	10.780	-336	346	-219	248	65	-190	196
Palaisplatz 3/3a	5.480	-367	379	-267	295	30	-103	105
DUSSELDORF								
Berliner Allee 42	6.800	-337	343	-193	217	33	-135	138
Berliner Allee 44	8.280	-445	440	-258	272	45	-158	162
Berliner Allee 48	5.380	-256	267	-171	177	27	-112	113
Steinstrasse 27	9.960	-714	717	-474	509	45	-188	194
FRANKFURT AM MAIN								
Gutleutstrasse	8.050	-1.053	1.024	-393	399	37	-207	213
HANOVER								
Landschaftstrasse 2	4.480	-459	470	-332	363	32	-88	91
Landschaftstrasse 8	3.980	-354	397	-108	123	22	-76	79
COLOGNE								
Ebertplatz 1	9.340	-301	300	-214	232	45	-182	186
Gustav-Heinemann-Ufer 54	17.830	-450	477	-278	301	87	-344	350
Hansaring 20	4.650	-173	176	-106	106	22	-93	96
Konrad-Adenauer Ufer 41-45	22.420	-302	320	-228	258	96	-416	430
Neumarkt 49	8.760	-439	471	-109	393	44	-159	158
Weyerstrasse 79-83	16.290	-664	1.478	-208	531	79	-310	313
MAINZ								
Rheinstrasse 43-45	2.630	-209	222	-138	137	18	-55	56
Rheinstrasse 105-107	4.190	-210	213	-133	142	23	-89	92
MUNICH								
Lessingstrasse 14	9.800	-436	418	-285	308	44	-184	193
STUTTGART								
Böblinger Straße 8 / Arminstrasse 15	4.120	-93	164	-95	103	22	-88	90
Quartier Büchsenstrasse	45.610	-725	729	-532	559	216	-861	879
Tübinger Strasse 31/33	10.800	-539	538	-459	495	48	-205	205
PORTFOLIO	**313.210**	**-12.795**	**13.838**	**-7.965**	**8.995**	**1.521**	**-6.016**	**6.148**

All investment properties are classified as Level 3 in the fair value hierarchy according to IFRS 13 on the basis of non-observable input factors in fair value measurement. Because the POLIS portfolio is comprised exclusively of properties used mainly as offices, the sensitivity analysis was based solely on the property-specific market rents of office space and disregarded the secondary types of use. The assumption that the same terms will apply to lease agreements being extended, in keeping with the business plan, produces less fluctuation in the valuations because new leases can only be concluded later at the new, prevailing market level. It is deemed appropriate to extend existing leases if the present value, which represents the difference between market rent and contractual rent, will exceed the marketing costs during the vacant period. In each of the sensitivity analyses shown in the summary, only one variable was changed compared with the basic scenario (fair value at 31 December 2014).
The variations from the prevailing fair value at 31 December 2014 presented under long-term gross profit were calculated as follows. The property-specific office market rent was increased or reduced by 10% at the valuation date. The increase in the property-specific market rents in subsequent years remained unchanged.
The deviation analyses from the respective fair values at 31 December 2014 shown under rent growth are based on a scenario where the year-on-year development in the property-specific office market rents applied a 1% increase or decrease over a period of 10 years. The increase or decrease in rent growth applies only to the property-specific office market rents, and not to the assumed indexing of lease agreements.

The gross profit for the individual properties determined from existing or assumed lease agreements was increased or reduced by 1%.

The average discount rate was increased or reduced by 25 base points.

Over and above the input factors shown in the above table, the increase or decrease in the exit yield in a notional resale after ten years has a highly sensitive effect on the fair values.

A planning period of ten years is assumed for the properties' valuation. Increasing or shortening the assumed marketing periods by one month when a change of tenants is planned has a very sensitive effect on the fair values.
POLIS will receive the following contractually secured rent payments (net rents up to the agreed end date of the agreement or the earliest possible date of termination and minimum lease payments by the tenant/lessee) under existing leases with third parties:

TEUR	Total	up to 1 year	2 to 5 years	over 5 years
Minimum lease payments (31.12.2014)	72.568	17.996	42.934	11.638
Minimum lease payments (31.12.2013)	72.882	17.650	40.487	14.745

For further information on the investment properties, please visit www.polis.de.

3.2. Intangible assets and property, plant and equipment

This item comprises software, the office space used for own purposes as well as fixtures and equipment. The development of this item is shown in the following table: Depreciation and impairment for the year are included in the administrative expenses item within the statement of comprehensive income.

Software, Fixtures and equipment

2014 / **2013**

Acquisitionand production cost, EUR '000

	01.01.2014	Additions	Disposals	31.12.2014	01.01.2013	Additions	Disposals	31.12.2013
Software	486	87	77	496	461	25	0	486
Fixtures and equipment	447	32	138	341	398	49	0	447
	933	**119**	**215**	**837**	**859**	**74**	**0**	**933**

Depreciation/ amortization, EUR ´000

	01.01.2014	Additions	Disposals	31.12.2014	01.01.2013	Additions	Disposals	31.12.2013
Software	318	86	72	332	240	78	0	318
Fixtures and equipment	266	52	133	185	220	46	0	266
	584	**138**	**205**	**517**	**460**	**124**	**0**	**584**

Carrying amounts, EUR '000

	01.01.2014	31.12.2014	01.01.2013	31.12.2013
Software	168	164	221	168
Fixtures and equipment	181	156	178	181
	349	**320**	**399**	**349**

3.3. Financial assets

The financial assets in each case include 15% of the shares in "POLIS Objekt Rankestraße GmbH & Co. KG", Berlin, in "POLIS Objekt Bugenhagenstraße GmbH & Co. KG", Berlin, and in "POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG", Berlin. It is intended to hold each of the 15% interests permanently. POLIS provides asset and property management services for these entities. The interests are measured at amortized cost for the first time because adequate financial information for determining the fair values could be provided. Valuation is according to Level 3. The basis is the calculation of the fair value for the property in the financial asset using the DCF method, with the following valuation parameters that are not observable on the market:

%	Vacancy rate 31.12.2014 (area)	planned long term rent increase (revenue)	Discount rate 31.12.2014*
Rankestrasse 5 - 6, Berlin	0,12	2,12	4,60
Bugenhagenstrasse 5, Hamburg	0,00	2,80	4,20
Ludwig-Erhard-Strasse 14, Hamburg	0,43	2,30	4,50
Finanzanlagen	**0,20**	**2,14**	**4,51**

* Diskontierungszinssatz nominal lt. Wüest & Partner

The variable-rate loan (interest rate comprising 3-month EURIBOR incl. margin: 1.278%) is deducted from the fair value for the properties, thus producing the fair value of the financial asset. In the case of POLIS Objekt Rankestraße GmbH & Co. KG, based on the 15% share, it is found to be EUR 900 thousand above the carrying amount of the financial asset.

The increase in value is performed in the revaluation reserve up until the final disposal of the financial asset less deferred taxes of EUR 142 thousand, because it is a financial asset available for sale within the meaning of IAS 39.
Compared with the previous year there were disposals as a result of withdrawals, along with revaluation gains from the higher market values of the properties.
Furthermore, the financial assets include 5.1% of the shares in "Bouwfonds GmbH & Co. Stinnesplatz KG". The interest was valued at cost in the absence of an active market value and due to the fact that POLIS does not have the information required for determining the fair value.

Acquisition and production cost

Company	Registered office	Interest %	01.01.2014 EUR ´000	Additions TEUR	Disposals EUR ´000	31.12.2014 EUR ´000
POLIS Objekt Rankestraße GmbH & Co. KG	Berlin	15,00	1.770	0	58	1.712
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	Berlin	15,00	1.200	0	20	1.180
POLIS Objekt Bugenhagenstraße & Co. KG	Berlin	15,00	559	0	0	559
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	Berlin	5,10	243	0	0	243
			3.772	**0**	**78**	**3.694**

Depreciation/amortization or revaluation

Company	01.01.2014 EUR ´000	Additions EUR ´000	Disposals EUR ´000	Reappraisal EUR ´000	31.12.2014 EUR ´000
POLIS Objekt Rankestraße GmbH & Co. KG	0	0	0	900	900
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	0	0	0	0	0
POLIS Objekt Bugenhagenstraße & Co. KG	0	0	0	0	0
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	0	0	0	0	0
	0	**0**	**0**	**900**	**900**

Carrying amounts

Company	31.12.2013 EUR ´000	31.12.2014 EUR ´000
POLIS Objekt Rankestraße GmbH & Co. KG	1.770	2.612
POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG	1.200	1.180
POLIS Objekt Bugenhagenstraße & Co. KG	559	559
Bouwfonds GmbH & Co. Objekt Stinnesplatz KG	243	243
	3.772	**4.594**

3.4. Deferred tax assets and liabilities

The deferred tax assets and liabilities due to temporary differences between the IFRS statement of financial position and the tax balance sheet and also tax losses carried forward are as follows:

Deferred tax assets	2014 EUR '000	2013 EUR '000
Investment properties	157	350
Tax losses carried forward	1.473	666
Hedging reserves	933	1.107
Other financial liabilities	0	185
Total (before Offsetting)	2.563	2.308
Offsetting	- 2.364	-2.122
DEFERRED TAX ASSETS	**199**	**186**
Deferred tax liabilities		
Investment properties	6.240	4.950
Other financial liabilities	64	0
Offsetting	- 2.364	-2.122
DEFERRED TAX LIABILITIES	**3.940**	**2.828**

Deferred tax assets are offset against deferred tax liabilities (EUR 2,364 thousand) only to the extent that they pertain to income taxes that are levied by the same tax authority for the same taxable entity.

At 31 December 2014, deferred taxes were formed in full with respect to the corporate tax losses carried forward for POLIS Immobilien AG (EUR 9,306 thousand, previous year EUR 4,211 thousand), since it is assumed that the corporate tax losses carried forward will be used by future corporate tax profits from the realization of existing fiscally relevant hidden reserves in the investment properties. The changes in the deferred tax assets pertaining to derivatives (interest rate swaps) that form part of an effective cash flow hedge (EUR 749 thousand, previous year EUR -138 thousand) were recorded under "Other income". The deferred taxes in respect of the market value changes of the financial assets were likewise recognized under "Other income" (EUR -142 thousand; previous year EUR 0 thousand). The other changes in the deferred tax assets and tax liabilities are recognized in income.

No deferred tax assets were recognized for trade tax losses carried forward amounting to EUR 50,733 thousand (previous year EUR 47,790 thousand) because they are not used according to the business plan.

3.5. Receivables and other financial assets as well as current tax receivables

All receivables and other financial assets have a remaining term of up to one year and are composed as follows:

	2014 EUR '000	2013 EUR '000
Trade receivables	5.356	4.711
of which allocable operating expenses	4.882	4.249
of which rent receivables	474	462
Sales tax credit and input tax deductible in the following year	0	227
Other receivables	264	627
TOTAL	**5.620**	**5.565**

The carrying amounts correspond to the fair values in view of their short remaining terms.

At 31 December 2014, receivables from operating costs not yet settled stood at EUR 4,882 thousand (previous year EUR 4,249 thousand) and advance payments received for operating costs amounted to EUR 4,039 thousand (previous year EUR 3,661 thousand).

The rent receivables are not impaired because there was no default risk and there was only an insignificant level of overdue receivables.

All rent receivables shown relate to commercial tenants located in Germany. The rent receivables have largely been assigned as collateral for bank loans. They can only be called in after cancellation of the corresponding credit

agreements has become legally effective.
The trade receivables that are not impaired have the following age structure:

Fair value EUR ´000	of which: neither impaired nor due EUR ´000	of which: not impaired but due for over 90 days EUR ´000	60 - 90 days EUR ´000	31 - 60 days EUR ´000	0 - 30 days EUR ´000
31.12.2014					
5.356	**5.220**	34	7	57	38
31.12.2013					
4.711	4.499	68	0	40	104

In the case of the trade receivables that are neither impaired nor due, there are no indications at the reporting date that the debtors will not meet their payment obligations. For the rent receivables that are already due, POLIS has received collateral in the form of rent deposits (cash deposits and guarantees) amounting to EUR 903 thousand (previous year EUR 1,182 thousand). POLIS is able to access this collateral in the event of payment arrears, in accordance with the terms of the lease agreements.
Impairments for other receivables and other assets were equally not required.
The current tax receivables in 2014 and also in the previous year concern creditable interest withholding taxes, the solidarity surcharge and corporate income tax credits.

3.6. Cash in banks

The reported figures represent cash in banks and cash holdings. There are no restrictions on disposal.

3.7. Other assets

Other assets largely pertain to accruals relating to rent–free periods. The accruals relating to rent-free periods were calculated based on the terms of the lease agreements, taking into account the rents attributable to the rent-free periods in 2014 and previous years.

3.8. Equity

The change in equity is shown in the consolidated statement of changes in equity.

Subscribed capital

The fully paid-up capital stock is composed of 11,051,000 no-par value ordinary bearer shares (no-par shares) each representing a notional share in the capital stock of EUR 10.00.

Capital reserves

The capital reserves (2014: EUR 18,185 thousand; 2013: EUR 18,185 thousand) include the premium from the issue of POLIS shares less the expenses associated with the initial public offer, taking into account deferred taxes.

Retained earnings

Offsetting POLIS Immobilien AG's net profit under commercial law against the capital reserves in previous years has affected the retained earnings at Group level. In addition, the adjustments made directly within equity for the adoption of IFRS (principally the fair value measurement of investment properties) come under retained earnings.

The Annual General Meeting of POLIS Immobilien AG on 22 June 2012 authorised the Board of Management of the Company to increase the Company's capital stock by up to a total of EUR 55,255,000.00 on one or more occasions up until 22 June 2017, with the approval of the Supervisory Board, through the issuance of up to 5,525,500 new no-par value shares for cash or contribution in kind. The Board of Management is moreover authorized, with the approval of the Supervisory Board, to

NOTES

exclude the shareholders' pre-emptive right.

3.9. Liabilities

The following overview shows the remaining terms of the liabilities (previous year's figures in brackets):

Liabilities schedule	Total	up to 1 year	Total over 11 years	Remaining terms: up to 5 years	Remaining terms: over 5 years
EUR '000					
Liabilities to banks	147.945 (156.452)	27.363 (6.398)	120.582 (150.054)	32.164 (65.614)	88.418 (84.440)
Advance payments received	4.039 (3.661)	4.039 (3.661)	0 (0)	0 (0)	0 (0)
Trade payables	1.331 (2.639)	1.331 (2.639)	0 (0)	0 (0)	0 (0)
Income tax liabilities	138 (88)	138 (88)	0 (0)	0 (0)	0 (0)
Other liabilities	11.850 (8.693)	2.759 (2.159)	9.091 (6.534)	6.855 (5.097)	2.236 (1.437)
	165.303 (171.533)	**35.630** (14.945)	**129.673** (156.588)	**39.019** (70.711)	**90.654** (85.877)
Deferred tax			3.940 (2.828)		
TOTAL LONG-TERM LIABILITIES			**133.613** (159.416)		
SUMME SHORT-TERM LIABILITIES		**35.630** (14.945)			

The key terms of the loan agreements with financial

Time to maturity Year	Interest rate %	Initial amortization %	Remaining debt EUR '000
2015	3,55	-	12.560
2015	variabel	2	13.116
2016	variabel	-	4.320
2018	variabel	-	20.790
2020	variabel	2	53.137
2021	variabel	1	12.907
2021	3,28-3,51	1	24.465
2023	2,9	1	6.650
		TOTAL	**147.945**

Time to maturity Year	Interest rate %	Initial amortization %	Remaining debt EUR ´000
2014	variabel	-	4.676
2015	variabel	2	22.400
2015	3,55	1	12.300
2016	variabel	1	4.320
2018	variabel	1	20.790
2020	variabel	2	54.182
2021	variabel	1	13.067
2021	3,28-3,51	1	24.717
		TOTAL	**156.452**

institutions are presented in the following table:
In financial year 2014, loans totalling EUR 6.8 million were raised for the financing of "Tübinger Strasse 31 and 33" in Stuttgart. In addition, long-term loans amounting to EUR 9.0 million were redeemed early and sales proceeds were used to repay short-term loans totalling EUR 3.9 million ahead of schedule. Together with scheduled redemption payments, the total cash outflow for the redemption of loans comes to EUR 15.3 million.
Of the liabilities to banks, a total of EUR 104,270 thousand (previous year EUR 118,902 thousand) is at variable interest rates and EUR 43,416 thousand (previous year EUR 37,017 thousand) at fixed interest rates; the item also includes accrued interest of EUR 259 thousand (previous year EUR 533 thousand).
The loans will already be repaid in part during their term as stated, meaning that partial amounts of the stated remaining debt have a shorter residual term than the term of the corresponding loan agreement.
The loans are secured by real estate liens of EUR 177,859 thousand (previous year EUR 192,218 thousand) against the property portfolio (carrying amount: EUR 313,090 thousand) as well as by assignments of claims e.g. for rent. They can only be called in after cancellation of the corresponding credit agreements has become legally effective.

The weighted average interest rate of all bank loans including derivative financial instruments at 31 December 2014 was 3.6% (previous year 3.6 %). The weighted average remaining term of the bank loans is 5.1 years (previous year 5.7 years).
The fair values of the variable-rate liabilities correspond to their carrying amount.

The fair values of the fixed rate liabilities at 31 December 2014 amount to EUR 45,366 thousand (previous year EUR 38,902 thousand). The fair values of the liabilities to banks are based on discounted cash flows that were determined on the basis of current market interest rates. The discount rates serving as the basis were 1.0%-1.9% (previous year 1.2%-2.7%) including margin.
Advance payments received include the advance payments for operating costs paid by tenants.
The income tax liabilities concern corporate income tax and solidarity surcharges totalling EUR 138 thousand (previous year EUR 88 thousand). The carrying amounts correspond to the fair values.

Trade payables largely pertain to construction work.
The other current liabilities item is composed as follows:

	31.12.2014 EUR ´000	31.12.2013 EUR ´000
Negative market value of derivative financial instruments	2.224	1.498
Miscellaneous	535	661
TOTAL	**2.759**	**2.159**

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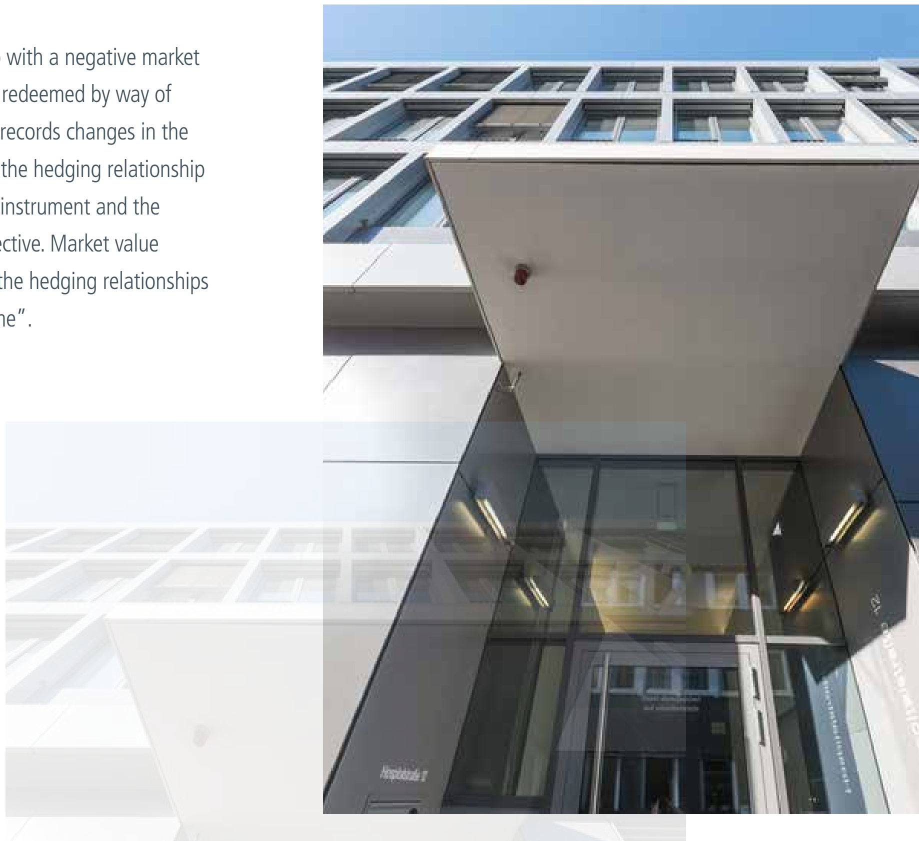
Hedging instruments	Number of Swaps	Volume EUR '000	Remaining time	Rate %	31.12.2013	Changes recognized in income	Redeemed by payments	Changes in market value CF-Hedges (recorded in other income)	Market value 31.12.2014
Financial instruments not designated in the context of cash flow hedges:									
Swap	2	8.150	1-2 Years	2,40 - 3,47	-983	160	-430	0	**-394**
Financial instruments designated in the context of cash flow hedges:									
	13	79.889	4-7 Years	2,33 - 3,56	-7.049	860	0	-4.733	**-10.921**
				TOTAL:	**-8.032**	**1.020**	**-430**	**-4.733**	**-11.315**
thereof long term					**-6.534**				**-9.091**
thereof short term					**-1.498**				-2.224
plus other short term financial liabilities					**-661**				-535
Total short term liabilities					**-2.159**				**-2.759**

In financial year 2014, one swap with a negative market value of EUR 430 thousand was redeemed by way of payment. The income statement records changes in the market values to the extent that the hedging relationship between the derivative financial instrument and the underlying transaction is not effective. Market value changes to effective portions of the hedging relationships are recorded under "Other income".



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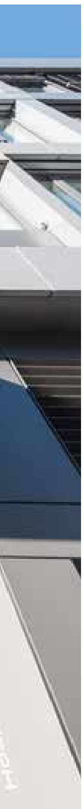
The key features of the derivative financial instruments used in the previous year are presented in the following table:

Hedging instruments	Number of Swaps	Volumen TEUR	Remaining time	Rate %	31.12.2012	Changes recogni-zed in income	Redeemed by pay-ments	Changes in mar-ket value CF-Hed-ges (recorded in other income)	Market value 31.12.2013
Financial instruments not designated in the context of cash flow hedges:									
Swap	3 (Vj. 7)	16.250	2-3 Jahre	2,40 - 3,69	-6.236	1.551	-3.702	0	**-983**
Financial instruments designated in the context of cash flow hedges:									
	13 (Vj. 13)	79.889	5-8 Jahre	2,33 - 3,56	-4.936	720	3.702	869	**-7.049**
				TOTAL:	**-11.172**	**2.271**	**0**	**869**	**-8.032**

3.10. Additional information concerning financial instruments

The financial instruments used by POLIS are classified as cash in banks and financial instruments, according to the IAS 39 measurement categories.

The following table shows the carrying amounts of the financial assets and liabilities:



Balance sheet item	Category	2014 EUR´ 000	2013 EUR ´000
Financial assets	Financial assets available for sale	4.351	0
Financial assets	Financial assets available for sale	243	3.772
Receivables and other financial assets	Receivables	5.620	5.565
Cash in banks	Cash in banks and cash holdings	8.778	6.370
		18.992	**15.707**
Liabilities to banks	Financial liabilities at amortized cost	147.945	156.452
Trade payables	Financial liabilities at amortized cost	1.331	2.639
Other financial liabilities	Financial liabilities at amortized cost	535	658
	Derivatives measured at fair value without effective hedging relationships	394	984
	Derivatives measured at fair value with an effective hedging relationship	10.921	7.049
		161.126	**167.782**

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The net gains and losses from financial instruments (excluding interest income and interest expense) in the income statement are as follows:

Balance sheet item	Category	2014 EUR ´000	2013 EUR ´000
Receivables and other financial assets	Receivables	0	0
Receivables and other financial assets	Receivables	0	0
Receivables and other financial assets and other financial liabilities	Derivatives measured at fair value without effective hedging relationships	160	1.551
	Derivatives measured at fair value with an effective hedging relationship	860	720
		1.020	**2.271**

The net gains from the derivatives measured at fair value include measurement gains from derivative financial instruments (interest rate swap) for which hedge accounting is not used (EUR 160 thousand; previous year EUR 1,551 thousand) and measurement gains for financial instruments designated as cash flow hedges (EUR 860 thousand; previous year EUR 720 thousand).
The changes in the market value of derivatives that form part of effective cash flow hedges (EUR -4,733 thousand; previous year EUR 869 thousand) were reported under "Other income" after deduction of deferred taxes (EUR 749 thousand; previous year EUR -138 thousand).

The portfolio of financial instruments that are measured at fair value as well as liabilities to banks for which a fair value is stated is composed as follows:

		31.12.2014				31.12.2013			
Angaben in TEUR		Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3	TOTAL
Finaancial assets	Financial assets available for sale	–	–	4.351	**4.351**	–	–	–	**–**
Liabilities to banks	Liabilities reported at fair value	–	-149.895	–	**-149.895**	–	-157.583	–	**-157.583**
Other financial liabilities	Derivatives measured at fair value without effective hedging relationships	–	-394	–	**-394**	–	-984	–	**-984**
	Derivatives measured at fair value with an effective hedging relationship	–	-10.921	–	**-10.921**	–	-7.049	–	**-7.049**
		0	**-161.210**	**4.351**	**156.859**	**0**	**-165.616**	**0**	**-165.616**

For financial assets, the market values are determined using the discounted cash flow (DCF) approach. Market values determined by external experts in accordance with IAS 40 for the properties included under participating interests serve as the basis for the market values of financial assets. Please also refer to Section 3.3 for further notes. For loan liabilities in respect of banks, the market values are determined using discounted cash flows, which use current market interest rates. The market values of the derivatives allocated to Level 2 are determined externally by the banks (using a DCF method) on a quarterly basis and their effectiveness is examined by a firm of independent auditors.

The management has established that the carrying amounts for cash and cash equivalents and short-term deposits, trade receivables, trade liabilities, advance payments received, current accounts and other current liabilities virtually correspond to the fair values of these instruments in view of their short maturities.

There was no regrouping between Levels 1, 2 and 3 of the fair value hierarchy in the period under review.

4.NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4.1. Rental income

This position comprises rental income from the investment properties, and in the previous year the properties that are disclosed as "Non-current assets held for sale". The rental income includes effects totalling EUR -60 thousand (previous year EUR 115 thousand) that are attributable to rent-free periods.

4.2. Renovation and maintenance expenses

General expenses incurred in the context of repairs and maintenance work on the rental and common-use space as well as cosmetic repairs are stated.

4.3. Property management expenses

This item comprises:

	2014 EUR '000	2013 EUR '000
Operating costs that cannot be charged to tenants	1.003	440
Letting-related costs	185	278
Other property management expenses	242	250
TOTAL	**1.430**	**968**

There was a year-on-year rise in non-allocable operating costs as a result of the allocation of general administrative costs for property management to operating costs. In the previous year, only personnel costs were allocated directly.

4.4. Result from the revaluation of investment properties

The table of the development of the properties in Section 3.1 provides further details of the composition of this item.

4.5. Result from the sale of investment properties

Transfer of possession at the end of 2013 of the investment property at "Immermannstrasse", Düsseldorf, reported under "Non-current assets held for sale", was completed according to plan in the first quarter at the final valuation. Consequently no additional income was realized from the sale. The second quarter saw the disposal of the investment property at "Rheinstrasse 43–45" in Mainz for a price of EUR 2,600 thousand and the third quarter the disposal of the investment property at "Rheinstrasse 105–107" in Mainz for a price of EUR 4,200 thousand, crystallizing losses of EUR 48 thousand and EUR 352 thousand respectively.
The sale of the investment property at "Kleppingstrasse 20" in Dortmund in the previous year produced a gain of EUR 377 thousand. "Gallenkampstrasse 20" in Duisburg was also sold in the previous year at market value.

4.6. Other income

Other income for financial year 2014 substantially comprises warranty payments and income from asset and property management services for the three companies in which POLIS has a 15% interest (EUR 175 thousand; previous year EUR 207 thousand).

4.7. Other expense

As in the previous year, the item "Other expense" is made up mainly of input tax adjustments.

4.8. Administrative expenses

The following table shows the composition of the administrative expenses:

	2014 EUR ´000	2013 EUR ´000
Staff costs	1.599	1.712
Legal, consultancy and auditing fees	448	532
Office and travel expenses	864	826
Stock exchange fees, financial reports, Annual General Meeting	267	230
Marketing and advertising expenses	49	61
Other expenses	128	145
TOTAL	**3.355**	**3.506**

In addition to the members of the Board of Management, on average 25 persons were employed in financial year 2014 (previous year 25), of which seven work in the "General Administration" area, and 18 in the "Asset and Property Management" area, including three trainees.

4.9. Investment income

As in the previous year, investment income arose primarily from distributions from the participating interests in Bouwfonds GmbH & Co. Objekt Stinnesplatz KG, Berlin, POLIS Objekt Rankestraße GmbH & Co. KG, Berlin, and POLIS Objekt Ludwig-Erhard-Straße GmbH & Co. KG, Berlin.

4.10. Financial income

The financial income refers to interest income from the current accounts of POLIS.

4.11. Interest expense

Financial expenses relate to the following items:

	2014 EUR ´000	2013 EUR ´000
Interest expense	5.554	5.365
Ancillary financing costs	171	330
TOTAL	**5.725**	**5.695**

The interest expense pertaining to loans corresponds to the overall interest expense for financial liabilities that are not measured at fair value.

4.12. Income taxes

The income tax expense for financial years 2014 and 2013 is composed as follows:

Expense (-)/Income (+)	2014 EUR ´000	2013 EUR ´000
Deferred taxes on losses carried forward	806	139
Deferred taxes from temporary differences	-2.515	-1.592
Current taxes	-18	-216
TOTAL	**-1.727**	**-1.669**

The income from deferred taxes for losses carried forward is the result of activating tax losses carried forward.

The corporate income tax rate in Germany was 15% in 2014 (previous year 15%), and the solidarity surcharge was 5.5% thereof. The resulting combined tax rate is

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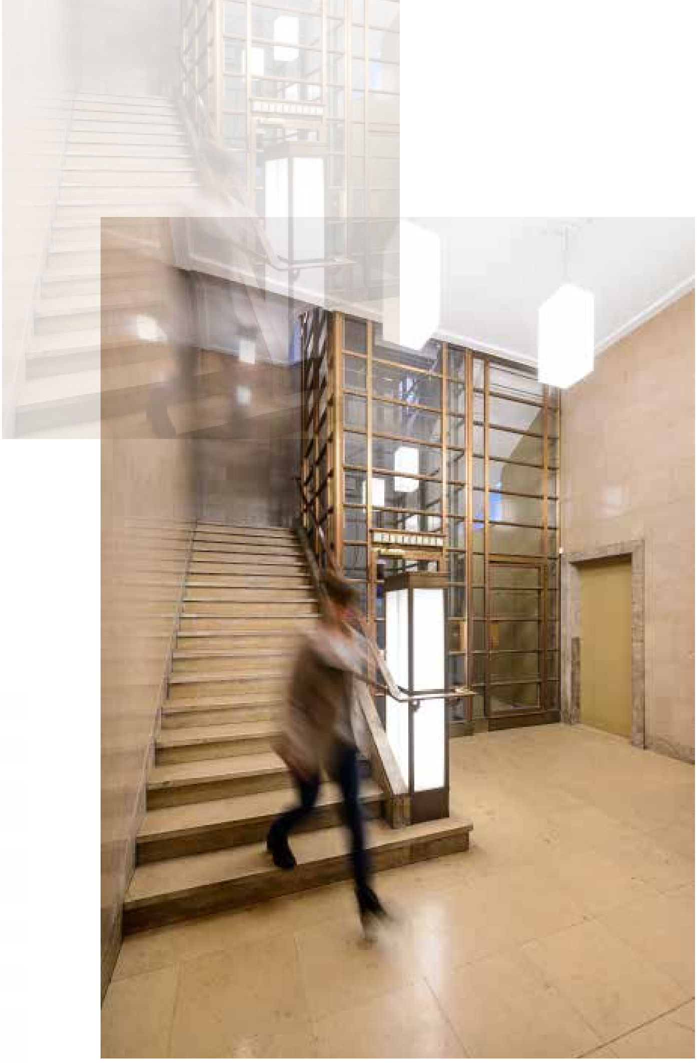
Staircase



15.825% (previous year 15.825%).

The following calculation shows how the reported income tax expense is derived from the expected tax expense.

	2014 EUR ´000	2013 EUR ´000
Profit before taxes	10.262	9.808
Group tax rate	15,8 %	15,8 %
Expected income tax expense	-1.624	-1.552
Non-deductible operating expenses	-7	-7
Income tax – previous years	-67	-110
Others	-29	0
Taxes on income	-1.727	-1.669
Tax rate	16,8 %	17,0 %

4.13. Earnings per share

	01.01.2014 bis 31.12.2014	01.01.2013 bis 31.12.2013
Group net profit/loss for the year after income		
allocable to minority interests (in EUR ’000)	8.535	8.139
Average number of ordinary shares in circulation	11.051.000	11.051.000
Earnings per share (diluted and undiluted) (in EUR)	0,77	0,74

Earnings per share are determined as follows:

5. DISCLOSURES CONCERNING THE CASH FLOW STATEMENT

The cash flow statement was drawn up using the indirect method, with cash from operating activities determined through a correction of the net profit by non-cash business transactions, adjustment of specific balance sheet items, and income and expenses in connection with investing and financing activities.

The financial resources used in the cash flow statement consist exclusively of the cash in banks and cash holdings disclosed in the statement of financial position. There are no restrictions on disposal.

Berlin | Lietzenburger Strasse 46

6. OTHER DISCLOSURES

6.1.Supervisory Board and Board of Management

The members of the Board of Management were:

Dr. Alan Cadmus,
Chief Executive Officer, Berlin

Dr. Michael Piontek,
Chief Financial Officer, Berlin

The following persons were members of the Supervisory Board:

Carl-Matthias von der Recke, retired bank director, residing in Frankfurt am Main (Chairman of the Supervisory Board)

Klaus R. Müller, member of the management of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Germersheim (Deputy Chairman)

Martin Eberhardt, Managing Director of Bouwfonds Investment Management GmbH, Berlin, residing in Hamburg

Wolfgang Herr, member of the Board of Management of Mann Immobilien-Verwaltung AG, Karlsruhe, residing in Baden-Baden

Ralf Schmechel, member of the management of Mann Management GmbH, Karlsruhe, residing in Malsch

Benn Stein, lawyer, specialist lawyer for tax law and chartered accountant, CT legal at Stein und Partner, Hamburg, residing in Hamburg

We refer to the compensation report section of the management report, which summarizes the principles governing the compensation of the Board of Management and Supervisory Board of POLIS and details the level and structure of the compensation of the individual members of the Board of Management and Supervisory Board.

6.2. Related party disclosures

Related individuals are the Supervisory Board, the Board of Management and their close relatives. Related companies also include the majority shareholder Mann Unternehmensbeteiligungen Holding GmbH & Co. KG, Karlsruhe, together with its affiliated companies, its Board of Management, its Supervisory Board, its majority shareholder and close relatives, as well as the major shareholder Bouwfonds Asset Management Deutschland GmbH, Berlin.
No transactions were concluded with close family members of the Supervisory Board and Board of Management.
In both the year under review and the previous year, no member of the Supervisory Board received compensation or advantages for services rendered personally, in particular for consulting and brokerage services.
Services amounting to EUR 60 thousand (previous year EUR 165 thousand) that were billed at market rates were performed for the Bouwfonds Asset Management Group in financial year 2014 as part of a lease agreement.
There were receivables amounting to EUR 7 thousand at the reporting date (previous year EUR 0 thousand). The reduction is attributable to the termination of the lease

agreement in the year under review

6.3. Objectives and methods of financial risk and capital management

Through its business activities, the Group is exposed to various financial risks.

The principal financial liabilities used by POLIS – except for derivative financial instruments – consist of interest-bearing loans from banks, other financial liabilities, trade payables, and advance payments received. The main purpose of these financial liabilities is to finance the business activities of POLIS, and in particular to finance the investment properties which serve as the main source of income for POLIS. The major financial assets of POLIS are bank balances, receivables and other financial assets, as well as investments. At the reporting date POLIS in addition has one property held for sale, along with derivative interest rate hedging instruments.

POLIS is exposed to market, credit and liquidity risks. The management of these risks is the responsibility of the Board of Management of POLIS. The Board of Management is supported in this task by the Risk Manager and the Controlling function, which analyzes the appropriate data and visualizes the consequences of risks. In a variety of ways, which include internal manuals and checks, the Board of Management ensures that the activities of POLIS that entail financial risks are carried out in accordance with the relevant guidelines and procedures, and that financial risks are identified, evaluated and managed in keeping with these guidelines and in line with the attitude to risk of POLIS. All derivative financial transactions entered into for risk management purposes are managed by staff members and the Chief Financial Officer who possess the necessary specialist knowledge and experience. Derivatives are only concluded for the purpose of interest rate hedging. In accordance with the guidelines, derivatives are not traded for speculative purposes. The guideline for the management of the risks presented in the following was approved by the Board of Management, which regularly reviews it.

Financial risks primarily include the interest rate risk, the default and credit risk, and the liquidity risk. The Board of Management of POLIS is responsible for risk management. It uses an extensive, software-based planning model for the early identification of complex risk situations. As a fundamental principle every member of staff is obliged to notify the Risk Manager and the Board of Management of all risks as soon as they become known. The reported risks are collated in a risk management list and discussed at the fortnightly management team meeting or Board of Management meeting, and counter-measures are discussed and approved as necessary. All risks are incorporated into the statement of financial position to the extent required, and are always monitored in the risk management system. The consequences of the risks and counter-measures are reflected in the accounting and therefore filter into the reports to the Supervisory Board, as well as into the Quarterly and Annual Reports. Furthermore, once a year a risk inventory is compiled by the Risk Manager and a risk report is issued both for inclusion in the presentation of risks in the management report and for the information of the Supervisory Board. The Supervisory Board advises and monitors the Board of Management.

A) MARKET RISK

The market risk represents the possible risk of fluctuation in the fair values of or future cash flows from a financial instrument due to changes in market prices. In the case of POLIS, the market risk includes the interest rate risk, as well as the valuation risk for derivatives. Financial instruments exposed to a market risk include e.g. interest-bearing loans, cash investments and derivatives.

POLIS manages its interest rate risk by following developments on the money and capital market on a daily basis, and fundamentally seeks to keep its leverage at a low level of no more than 60% of the market value of the investment properties while also adopting a flexible interest rate hedging strategy. The policy in the prevailing environment of low interest rates is to hedge the interest rate for between 70% and 90% of variable-rate loans (proportion hedged at the time of reporting: 83 %). This interest rate hedging takes the form of fixed-rate loans, interest rate swaps or interest rate caps.

Interest rate risks occur as a result of market-led fluctuations in interest rates. On the one hand these affect total interest expense, and on the other hand influence the market value of the derivative financial instruments. At 31 December 2014, the variable-rate bank liabilities of POLIS stood at EUR 104,270 thousand (previous year EUR 118,902 thousand). A total amount of EUR 86,560 thousand (previous year EUR 96,139 thousand) is converted into fixed-rate liabilities through interest rate swaps. Fixed-rate liabilities to banks amounted to EUR 43,416 thousand (previous year EUR 37,017 thousand).

POLIS uses a cash-flow-at-risk analysis to determine the effects of changes in interest rates on its profit or loss and its equity. In carrying out this analysis, the cash flow that would result from a parallel shift in the interest rate curve by 100 base points is calculated for a forecast period of four years. At 31 December 2014, 88% of the interest-bearing liabilities to banks were hedged. This means that 12% (EUR 17.7 million) of the loans are not hedged. A 100 base point rise in interest rates would increase the interest expense by approximately EUR 177 thousand per year and reduce the consolidated comprehensive income. The market price of derivative financial instruments, too, is exposed to an interest rate risk. A rise in interest rates by 30 base points would have increased the derivatives at 31 December 2014 by about EUR 2.00 million (previous year EUR 1.67 million), and the same movement in the opposite direction would have reduced them correspondingly. With an estimated probability of this scenario assumed to be 10%, the risk amounts to EUR 200 thousand. The effect would lead to a change in equity.

As a form of micro-hedging, the existing interest rate swaps are largely matched directly to the corresponding variable-rate loans to form valuation units at property company level. As a result, the market value changes of the effectively hedged portions of the interest rate swaps are recognised directly in equity, under "Other income". To meet the requirements for this direct matching (effectiveness), the level, maturities and interest payment dates of the interest rate swaps correspond to the terms of the loans. Effectiveness is examined quarterly by a firm of independent auditors.

B) DEFAULT RISK/CREDIT RISK

The default risk describes the risk of a business partner not meeting their obligations in connection with a financial instrument, with a financial loss being the consequence. Through its operating activities POLIS is exposed to default risks (including the risks of rent defaults) and also, through its relationship with banks and financial institutions, exposed to risks associated with its financing activities, including from cash investments, lending activities and interest rate hedges.

The maximum default risk of the financial assets corresponds to their carrying amount.

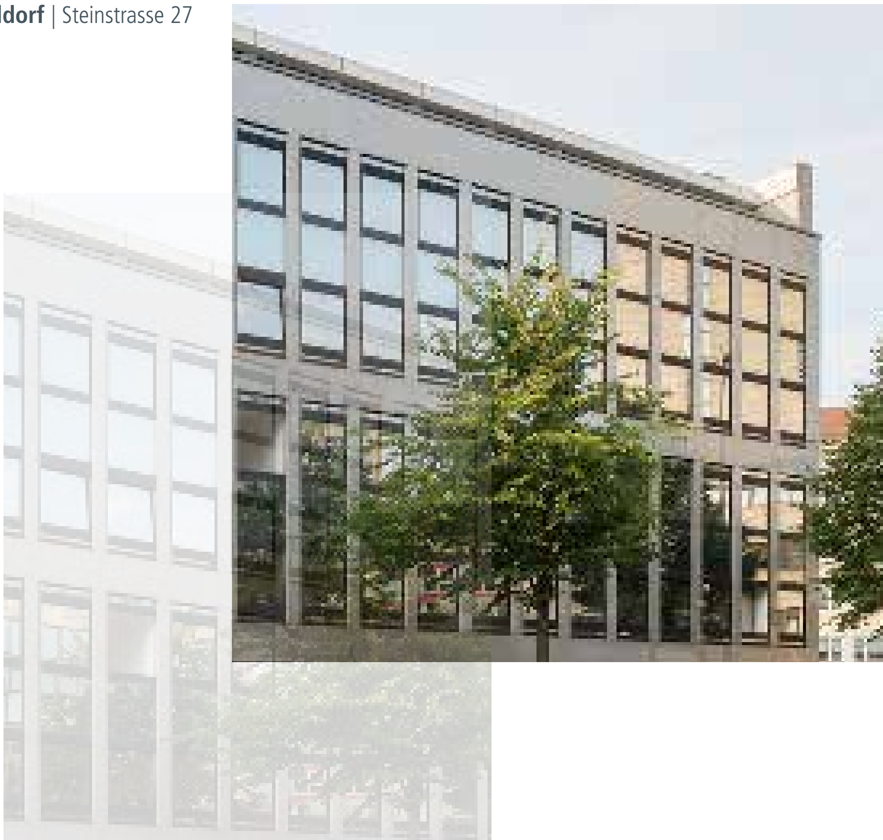
Specific default risks exist with respect to the rent receivables. Centralized monitoring of all existing receivables is used for the early detection of default risks. The lease agreements are regularly checked for cluster risks and credit risks.

At 31 December 2014, receivables from operating costs not yet settled stood at EUR 4,882 thousand (previous year EUR 4,249 thousand), and advance payments received for operating costs amounted to EUR 4,039 thousand (previous year EUR 3,661 thousand); receivables relating to operating costs that can be charged to tenants were neither impaired nor due. Also, POLIS has received extensive collateral in the form of rent deposits (cash deposits and guarantees).

Bank default risk

We monitor the counterparty credit risk of banks and financial institutions by regularly checking the ratings of these institutes (Fitch Ratings) along with other accessible data. For cash investments, we also take membership of deposit-guarantee schemes into account in our assessments. POLIS endeavours to avoid cluster risks in all areas and envisages e.g. spreading its loans across a reasonable number of banks and financial institutions. To guard against default by the counterparties, we ensure that substitute interest rate hedging instruments with virtually

Dusseldorf | Steinstrasse 27



the same market value are available on the market. These risks are managed by the Chief Financial Officer along with the staff members responsible, in accordance with the relevant guidelines that have been issued.

C) LIQUIDITY RISK

In addition to liquidity planning with a multi-year planning horizon, the Board of Management also uses comprehensive continuously updated monthly liquidity planning with a twelve-month planning horizon for the early detection of any liquidity issues. Group-wide cash management is used to monitor the current liquidity position. The liquidity position is managed daily by the Chief Financial Officer and discussed at management team and Board of Management meetings.

The following table presents all contractually agreed payments at 31 December 2014 for redemptions, interest and repayments in respect of financial liabilities, preventing a reconciliation with the disclosures in the statement of

ANALYSIS OF MATURITIES AT 31 DECEMBER 2014

	gross cash outflows					
EUR '000	**Total**	2015	2016	2017	2018	from 2019
Liabilities to banks	161.781	30.234	8.223	3.845	24.633	94.846
Trade payables	1.331	1.331	0	0	0	0
Other liabilities	535	535	0	0	0	0
Non-derivative financial liabilities	163.647	32.100	8.223	3.845	24.633	94.846
Designated derivative financial instruments	10.921	1.975	1.818	1.675	1.679	3.774
Non-designated derivative financial instruments	394	249	145	0	0	0
Derivative financial liabilities	11.315	2.224	1.963	1.675	1.679	3.774
Maturity before utilization of loan commitments	**174.962**	**34.324**	**10.186**	**5.520**	**26.312**	**98.620**
Loan commitments	0	0	0	0	0	0
Maturity after utilization of loan commitments	**174.962**	**34.324**	**10.186**	**5.520**	**26.312**	**98.620**

NOTES

financial position:
Payments from the variable-rate liabilities to banks and the derivative financial instruments (interest rate hedging instruments) are reported assuming constant interest rates. In view of the hedging relationship, a change in the interest rates would not have any influence on the overall outflow of funds, and would merely affect its composition.
Loans with a volume of EUR 25 million fall due at 31 December 2015. Refinancing or extending them is considered to be unproblematic because a number of banks are eager to offer refinancing or extended terms.
At the reporting date there were other financial obligations totalling EUR 2,506 thousand (previous year EUR 330 thousand) from order commitments for construction contracts. Bank balances, unencumbered properties and the cash flow from operating activities are available for financing the planned investments for 2015, which amount to approximately EUR 10 million.

ANALYSIS OF MATURITIES AT 31 DECEMBER 2014

	gross cash outflows					
EUR '000	**Total**	2014	2015	2016	2017	from 2018
Liabilities to banks	172.938	9.525	38.956	7.991	3.601	112.865
Trade payables	2.639	2.639	0	0	0	0
Other liabilities	658	658	0	0	0	0
Non-derivative financial liabilities	176.235	12.822	38.956	7.991	3.601	112.865
Designated derivative financial instruments	8.116	1.416	1.370	1.324	1.277	2.729
Non-designated derivative financial instruments	780	330	330	120	0	0
Derivative financial liabilities	8.896	1.746	1.700	1.444	1.277	2.729
Maturity before utilization of loan commitments	**185.131**	**14.568**	**40.656**	**9.435**	**4.878**	**115.594**
Loan commitments	-6.800	-6.800	0	0	0	0
Maturity after utilization of loan commitments	**178.311**	**7.768**	**40.656**	**9.435**	**4.878**	**115.594**

Munich | Lessingstrasse 14

The expense incurred in the financial year from operating leases for vehicles, office equipment and office rents amounts to EUR 288 thousand (previous year EUR 258 thousand). The future lease payments are made up as follows:

EUR '000	Gesamt	bis 1 Jahr	1-5 Jahre	über 5 Jahre
31.12.2014	378	264	114	0
31.12.2013	546	256	290	0

The loans are subject to the typical covenants: debt service coverage ratios of 110% and 120%, interest service coverage ratios of 1.40 to 1.49, and loan-to-value ratios of 65% and 70% at the level of individual properties and 70% and 80% at portfolio level. All covenants were met both in the current financial year and in the previous year. The terms of the derivative financial instruments are presented in the table under Item 3.9.

Capital management

Equity includes equity attributable to the shareholders. The primary objective of capital management is to ensure an equity ratio of at least 40% to support business operations.

POLIS monitors its capital by means of the loan-to-value ratio (ratio of loans to the value of the investment properties); it aims not to exceed an LTV of 60%. At the reporting date, this ratio is 47% (previous year 50%).

Berlin, 5 March 2015
POLIS Immobilien AG
– The Board of Management –

Dr. Alan Cadmus **Dr. Michael Piontek**

6.4. Fees and services of the auditor

The fees for services provided by the auditor Ernst & Young Wirtschaftsprüfungsgesellschaft in financial year 2014 were as follows:

	2014 EUR '000	2013 EUR '000
Prüfungshonorare	109	103
SUMME	**109**	**103**

6.5. Corporate governance

On 21 November 2014, the Board of Management and Supervisory Board of POLIS issued declarations concerning the recommendations of the German Corporate Governance Code. The recommendations have been met since 28 November 2013 and will, with few exceptions that are explained and justified, be met in the future. The current declaration of conformity of the Board of Management and the Supervisory Board has been published on the POLIS website at www.polis.de.

Cologne | Gustav-Heinemann-Ufer 54

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by POLIS Immobilien AG, Berlin – comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements – and the group management report for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and group management report in accordance with the International Financial Reporting Standards as adopted in the EU, and further in accordance with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report on the basis of the audit that we have conducted.

We have conducted our audit of the consolidated financial statements in accordance with Section 317 of German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in such a way that inaccuracies or misstatements materially affecting the picture of the net assets, financial position and financial performance presented by the consolidated financial statements in accordance with the applicable reporting framework and by the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group as well as an assessment of potential misstatements are taken into account in determining the audit procedures. The effectiveness of the internal control system relating to the accounting functions and the evidence supporting the disclosures in the consolidated financial statements and group management report are examined primarily on a test basis within the scope of the audit. The audit encompasses an evaluation of the annual financial statements of the companies included in the consolidated financial statements, the definition of the scope of consolidation, the accounting and consolidation principles applied and the significant estimates made by the legal representatives as well as an assessment of the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

Based on the findings of our audit, we conclude that the consolidated financial statements comply with the International Financial Reporting Standards as adopted in the EU, and further with the applicable provisions of commercial law under Section 315a (1) of German Commercial Code and provide a true and fair view of the net assets, financial position and financial performance of the group in accordance with these requirements. The group management report is in agreement with the consolidated financial statements, as a whole provides an accurate impression of the position of the group and accurately presents the opportunities and risks of future development.

Berlin, 5 March 2015
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers
Wirtschaftsprüfer

Pfeiffer
Wirtschaftsprüferin

POLIS KEY FINANCIAL DATA OF POLIS IMMOBILIEN AG

RESULTS	2014 EUR '000	2013 EUR '000	2012 EUR '000	2011 EUR '000	2010 EUR '000
Rental revenues	18.396	18.239	16.020	14.886	13.053
EBIT	14.742	13.054	10.465	12.385	7.410
EBT	10.262	9.808	2.574	3.239	1.956
Group net profit	8.535	8.139	2.171	2.563	1.547
Cash flow from current business operations	10.837	9.038	6.786	5.857	7.688
Funds from operations (FFO)[1]	6.713	5.002	2.567	1.221	1.988

BALANCE SHEET	31.12.14 EUR '000	31.12.13 EUR '000	31.12.12 EUR '000	31.12.11 EUR '000	31.12.10 EUR '000
Non-current liabilities	318.989	318.275	290.690	294.452	307.073
Current liabilities	15.086	15.609	19.302	7.614	10.245
Equity	164.832	159.523	150.653	149.330	147.989
Total assets	334.075	333.884	309.992	302.066	317.318
Equity ratio	49%	48%	49%	49%	47%
Loan to value[2]	47%	50%	48%	47%	51%
Net asset value der POLIS EUR '000[3]	168.573	162.165	151.706	150.109	148.651
Shares (no.)	11.051.000	11.051.000	11.051.000	11.051.000	11.051.000
Net asset value per share (EUR)	15,25	14,67	13,73	13,58	13,45

[1] Funds from operations = EBIT +/- Income from the revaluation of properties +/- Income from the sale of properties +/- Financial results + Income from minority interests - Paid taxes

[2] Ratio of loan liabilities to the value of the properties

[3] Net asset value (NAV): Equity plus deferred tax liabilities less deferred tax assets

GLOSSARY

> ACTIVE MANAGER:
A company that itself owns properties. In addition to current cash flows, the appreciation in value through active management is an important aspect of the investment. The properties are actively managed; this includes buying and selling individual properties.

> ASSET MANAGEMENT:
The active, value-driven operation and/or optimization of properties through lettings management, repositioning or modernization/revitalization.

> BUY-AND-SELL CONCEPT:
The buying and selling of properties based on a concept.

> CASH FLOW:
The net cash arising from inflows and outflows of funds in a period.

> CASH FLOW-AT-RISK-ANALYSIS:
A method of determining risks in cash flows taking various different scenarios into account. The scenarios are based on assumptions regarding certain parameters (e.g. interest rate).

> COMPLIANCE:
This means compliance with laws and guidelines by a company. The principles and measures taken by a company to comply with specific regulations and therefore prevent the company from violating regulations are referred to as the compliance management system.

> „CORE" PROPERTY:
Properties in top locations let long-term to tenants of excellent creditworthiness are referred to as core properties.

> „CORE +" PROPERTIES:
Core properties that exhibit deviations for criteria such as location, occupancy rate or quality and therefore carry slightly higher risks.

> CORPORATE GOVERNANCE:
The rules of sound, responsible corporate management. The aim is a management approach based on values and standards, in the interests of the shareholders and other stakeholders. The management's annual declaration of conformity with the German Corporate Governance Code gives the latter a tool with which to assess the standard of corporate management.

> CORPORATE RATING:
An assessment of the financial standing of a company. The rating is intended as a neutral, future-oriented, comprehensive assessment of the company's success and risk factors.

> COVENANTS:
Certain clauses in credit agreements that constitute contractually binding pledges by the borrower during the term of a loan.

> DAXSUBSECTOR REAL ESTATE INDEX:
A price index that reflects the development in value of the largest (by market capitalization) and highest-turnover German stocks in the Prime Standard in the "Real Estate" subsector.

> DEFERRED TAXES:
Deferred income taxes are to be created to the extent that temporary differences exist between the carrying amounts of assets and liabilities in the IFRS financial statements and their tax-related carrying amounts.

> DERIVATIVE FINANCIAL INSTRUMENTS (INTEREST RATE DERIVATIVES):
Derivative financial instruments, or derivatives, are reciprocal agreements using prices generally based on the development of a market-dependent underlying asset (e.g. shares or interest rates).

> DESIGNATED SPONSOR:
Designated sponsors are specialist financial service providers who compensate for temporary imbalances between supply and demand for individual stocks in the electronic trading system XETRA. The purpose is to

improve the transferability of a stock by placing bid and ask limits.

> DSCR (DEBT-SERVICE-COVERAGE-RATIO):

This is a key business ratio that expresses loan interest rates and redemption payments in relation to income, depending on the type of debtor. It is intended to indicate how far the interest and redemption payments for the loans raised can be serviced from the income from the property.

> DUE DILIGENCE:

Describes a risk analysis conducted with the utmost care, e.g. in connection with the purchase of a property. Both the strengths and the weaknesses of the property are analyzed.

> EBIT

Earnings before interest and taxes.

> EBT

Earnings before taxes.

> EURIBOR:

The interest rate at which large banks (panel banks) in the eurozone lend funds to each other.

> FAIR VALUE:

The fair value is the amount at which an asset could be exchanged or a liability settled between knowledgeable parties in an arm's length transaction.

> FFO (FUNDS FROM OPERATIONS):

Operating result from property management, other expenses and income, administrative expenses, investment income as well as interest income and expenses.

> FITCH-RATING:

A ratings agency with main offices in New York and London. It uses a rating scale from AAA to D.

> FREE FLOAT:

Free float means the proportion of shares in a company that are held by a large number of shareholders and can be traded unrestricted on the stock market at any time.

> GERMAN ACCOUNTING STANDARDS (HGB):

The German Commercial Code (HGB) contains the core of German commercial law.

> IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS):

Issued by the International Accounting Standards Board (IASB). They must be adopted by publicly traded companies and aim to provide greater comparability.

> INTEREST RATE SWAP:

Interest rate swaps involve contracting parties exchanging cash flows from loans at fixed and variable interest rates. This makes it possible, for example, to secure a specific interest level and thus minimize risks from interest rate rises (cf. Derivatives).

> INTERNATIONAL VALUATION STANDARDS:

These comprise both international standards on valuation and procedural instructions on how to perform valuations of all kinds of assets for accounting purposes.

> INVESTMENTGRADE-RATING:

A good to very good rating (cf. Corporate rating) of at least "BBB", which permits participation in the capital market attracts interest, in other words the interest rate that produces a capital value of zero.

> IRR:

Internal rate of return (IRR): The interest rate at which the capital tied up in the investment property actually

> ISCR (INTEREST-SERVICE-COVERAGE-RATIO):

ISCR shows the ratio of interest payments and rental income of the property.

> LOAN-TO-VALUE RATIO:

Ratio of financial debt, corporate bonds and liabilities to the market value of the investment property.

> MARKET CAPITALIZATION:

The market value of a stock corporation. It is calculated by multiplying the current trading price by the number of shares.

GLOSSARY

>MULTI-TENANT-CONCEPT:
The approach of seeking multiple tenants for the lettable space in a building.

> NAV (NET ASSET VALUE):
Represents the intrinsic value (net asset value) of a company. Net assets are calculated as the difference between the fair values of the assets less liabilities.

> NET INITIAL YIELD:
The net initial yield is a key ratio calculated according to the EPRA standard expressing the profitability of the property portfolio. It is calculated by dividing the annualized rental income at the reporting date, less non-apportionable costs, by the market value of the property portfolio, including ancillary acquisition costs.

> NET RENTAL INCOME:
Rental income less renovation and maintenance expenses and property management expenses. The EPRA standard expressing the profitability of the property portfolio. It is calculated by dividing the annualized rental income at the reporting date, less non-apportionable costs, by the market value of the property portfolio, including ancillary acquisition costs.

> NNAV (NET NET ASSET VALUE):
Unlike NAV, this figure is adjusted for deferred taxes.

> OPERATING LEASING:
The IAS/IFRS term used for leases that are not to be regarded as finance or capital leases under certain classification criteria (international lease accounting).

> POTENTIAL RENT
The maximum rent that could be achieved in the current market conditions if all available space could be let at the current market rent. It may be necessary to carry out modernization work or similar in order to realize the potential rent.

> PROPERTY MANAGEMENT:
The active, direct and operational management of individual properties from a commercial and technical viewpoint.

> REFURBISHMENT:
Extensive structural modifications or revitalization designed to upgrade the quality or amenities of a property.

> THIRD-PARTY ASSET MANAGEMENT:
Asset management that is performed on behalf of third parties, in the role of a service provider. The service provider may itself hold a minority interest in the properties managed.

> „VALUE ADDED"-PROPERTIES:
These are properties in need of modernization and/or standing empty. The intention is to generate value added by carrying out modernization and eliminating vacancies.

> VALUE-AT-RISK :
Denotes the negative change in a portfolio's market value that will not be exceeded for an unchanged portfolio under a given change in parameters with a given confidence level.

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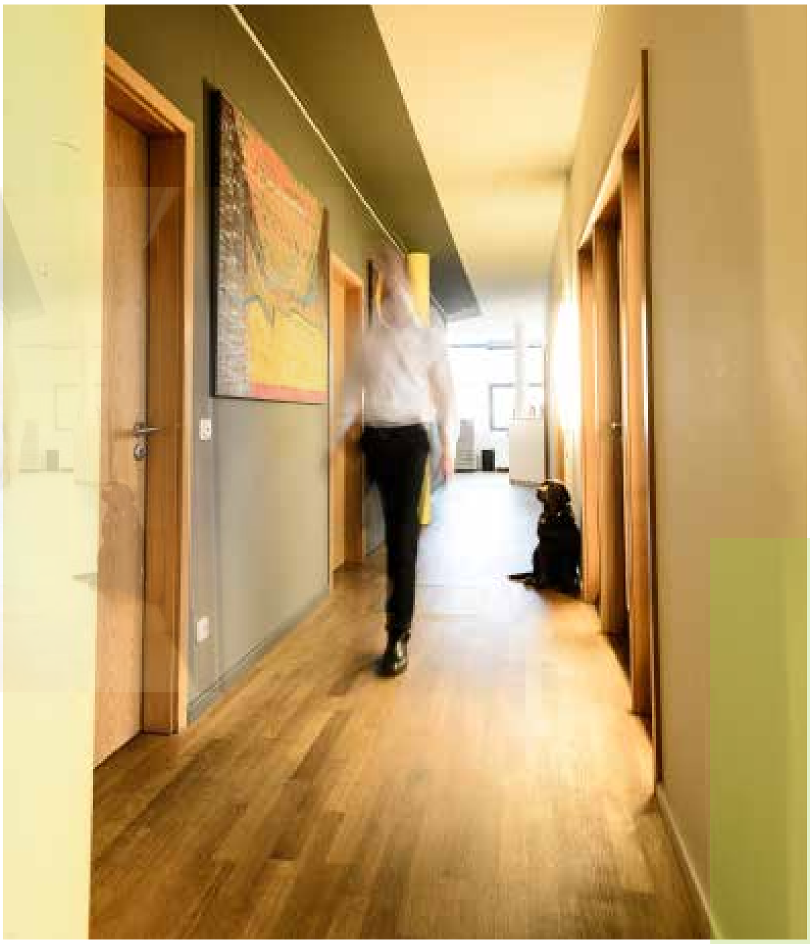

POLIS FINANCIAL CALENDAR

Interim Report Q1 2015	7 May 2015
Annual General Meeting	19 June 2015
First Half Report 2015	6 August 2015
"Real Estate Share Initiative", Frankfurt am Main (analyst conference)	October 2015
Interim Report Q1-Q3 2015	5 November 2015

IMPRINT

PUBLISHER
POLIS Immobilien AG
Rankestrasse 5–6
10789 Berlin
Germany

www.polis.de

CONCEPT AND DESIGN
a.b. media GmbH
www.abmedia-online.de

PRINTER
DruckCenter GbR, Hilders

PHOTOS
Andi Albert Photography, Würzburg (property photos)
Markus Bachmann (property photos)
Markus Düdder, Dortmund (property photos)
Linus Lintner, Berlin (property photos)
Harry Schnitger, Berlin (interiors and personnel photos)
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This Annual Report was printed on recycled paper. Paper: RecyStar Polar made from 100% recycled fibres.

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